



**ANNUAL REPORT** 2010/11

## VISION

*“Mbizana, a flourishing local municipal area with a growing economy creating employment and sustainable communities where everyone has access to equal opportunities.”*

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## MISSION

*Mbizana Local Municipality will be a well governed municipality committed to discharging its legislative and constitutional mandate through:*

- . Investing in its people to fight poverty*
- . Providing affordable services*
- . Facilitating a people-driven economy*
- . Building sustainable communities*
- . Protecting and preserving its environment to the benefit of its people*
- . Strengthening a culture of public participation*



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# PART ONE

# Mayors Foreword

*It is a great pleasure to introduce this 2010/2011 Annual report to the people of Mbizana Local Municipality. This annual report is a political expression of governments transformation, agenda whose sole express purpose is to transform the municipal environment of Mbizana.*

It is expressed within the context of a variety of needs that people of Mbizana are experiencing but as stated above it focuses on achievements and challenges for a specific financial year. This is done to ensure that on an annual basis the people of Mbizana who govern through their respective public representatives (Councillors) are better positioned to make performance assessment of the council and ultimately hold us as elected public representatives accountable. This Annual Report is a vital accounting tool as it states clearly what the council did over the period under review so that there is transparency and accountability in our system of governance.

The key priority areas of performance which this report seeks to cover are those five strategic agenda areas identified by the government namely:

- Basic Service Delivery
- Municipal Financial Viability
- Institutional development
- Local Economic Development
- Good Governance and public participation

The above priority areas guides our exercise of description on application of mandate given to us by the people of Mbizana. Last but not least I would like to thank my predecessor Cllr MM Twabu who is now the Hon. Speaker of Alfred Ndzo District Municipality for job well done.

I further commit myself and the Executive Committee to continue from where he and his executive committee left off and I am quite optimistic of a brighter future of Mbizana Local Municipality. However the biggest challenge as it appears in this report is bad and opinion from Auditor General but with the Internal Audit Unit working with our Audit Committee I hope for better things in the coming years.

**Cllr Zoleka Busuku**  
Hon. Mayor

# Municipal Managers Programme Statement

*The Service Delivery and Budget Implementation Plan was approved by the Mayor in terms of section 53(c)(ii) of the Municipal Finance Management Act, 56 of 2003.*

The Service Delivery and Budget Implementation Plan (SDBIP) set priorities for the financial year under review; it also set revenue and expenditure targets for the period under review. Priorities were set in terms of what was identified as key issues in the Integrated Development Plan. As envisaged in the SDBIP, the priorities that were agreed on were also budgeted for the budget that was duly adopted by the Municipality.

The major issue according to the IDP is the poor levels of infrastructure, poverty and general under-development, which manifest itself through poverty and unemployment. It is therefore common cause that there is a major focus on Local Economic Development, infrastructure development, particularly access roads and community facilities.

In terms of the Local Economic Development, the strategic focus areas are Agriculture, Tourism, Small Medium and Micro Enterprise support, Forestry and Mining. A total of 40 small enterprises were trained on basic management skills and the Municipality hosted a business seminar. However, there was an intention to create infrastructure to support informal trading but it was never realized due to technical challenges that led to delaying of designs. We also supported small Income Generating Projects in villages to ensure that we had a mark in reducing poverty. It has been indicated from time to time that tourism is one of the major economic drivers in the area of Mbizana, hence the focus on tourism. In this regard we developed a Tourism development Framework.

With regards to infrastructure we have focused on providing access roads and maintaining the existing access roads. We created a total of 13 access roads of which 95% were completed and the remainder was completed during the following financial year. The new roads measured a total of 59.9 kilometers. We further built 2 Community Halls.

During the year under review we managed to spend 95% of the total infrastructure budget for the creation of new infrastructure. It is however important to indicate that the Supply Chain Management processes have to be better managed. There has been a general improved financial management during the year. The major area that remained outstanding and challenging is the implementation of GRAP 17 and 18. It is clear that the following financial year has to address the matter as this will continue to be an audit finding. There are procedure manuals and some policies

that are used to ensure that the control environment is improved. As the Municipality clearly depends on grants, we have to think of better ways of improving revenue. The revenue base is small but we have to maximize collection from the very small base. We will develop a revenue enhancement strategy so as to consider other streams of revenue and collect better from the existing revenue base.

Good work has been done but more still has to be done on the control environment and performance management.

**S. Thobela**  
Municipal Manager

# Overview of the Municipality

*Mbizana Municipality has an estimated population of 279 739 people living in 46 730 households . This represents an estimated household average of 5 persons per household. The population density is estimated to be 99.7 persons per square kilometre.*

However, it should be noted that this average density varies across specific place areas when comparing especially urban and rural areas. For example, wards 02, 16, 24 and 25, with very low population while population seems to correlate with the major and feeder roads with wards 05, 12, 13, 15, 17, 19, 21 and 23 notably being the most populous within Mbizana municipality. There are more females (55%) than males (45%) in our population. This calls for dedicated programmes of integration and incorporation of women in key planning and decision making roles of our municipality.

Mbizana is a rural municipality (98, 5%) with over 250 settlements that are mainly villages and just over 5% of its households residing in the urban centre and peri-urban areas of Bizana, Mzamba and others. With the majority of households living in rural villages, it will be imperative for the council to adopt effective strategies for rural development as a matter of priority.

## POPULATION AGE DISTRIBUTION

Mbizana population is very youthful with over two thirds falling within the categories of age group 1 to 35 years. The diagram below shows that Mbizana population has a large number (47%) of school going age groups (5 -19 years). Youth development and learner support programmes would have to be prioritised in order to deal with the needs of this majority section of our population

The council has adopted its review LED Strategy for implementation by 2011/12. This strategy is intended to guide interventions of the municipality in its attempts to improve economic development and thereby increase its revenue base. The municipality sees its role in economic development as primarily to create conducive environment for investment attraction and leveraging of efforts for sustained growth and poverty alleviation.

According to the LED strategy 2010, Agriculture is the primary active sector in the local economy. Other primary sectors like mining are not performing optimally. Secondary sectors like manufacturing and tourism are also very weak and underdeveloped. However, the hospitality sub-sector of tourism has shown improvements with spiralling B&B establishments around the town of Bizana in the last two years.

The overall economy of Mbizana has improved in the last decade (1999 -2009). However, the improvements have not shown in the struggle against poverty and unemployment. This situation must be turn-around if we are to improve local people's lives and the economy.

The gross develop product is estimated by 2008 (Global Insight) to be approximately R500 million. This shows a huge improvement from its estimated R300 000 by 2003 largely due to increased per capita growth in retail and domestic services.

Approximately 48% of population in the Mbizana municipality is in the economically active age group 15 to 64 years. According to the graph below, another 47% is comprised of children.

Due to this situation the levels of dependency on the economically active population are high even though the majority of this latter group is unemployed.

A well known phenomenon was that of 2011 Local government elections in which the Demarcation Board in its process of ward delimitation increased wards from 25 to 31 due to population and vastness of some of the existing wards which therefore suggests more resources to service these areas are required.



# Executive Summary

*Mbizana Local Municipality is a very rural Municipality with a population of 279,739 (Statssa: 2007). The Municipality is characterized by youthfulness of its population with 47% of the total population less than 35 years of age and 48% of the population economically active.*

Consistent with the national trends 55% of the population is women. The statistics tell us that we have to develop policies and programmes that will address the plight of the young people and women in the main. The most disturbing set of the statistic is the fact that unemployment is at 57% and the Human Development Index (HDI) at an alarming 0.31 over the period under review. This exposes the challenge that the Municipality is faced with. As part of the characteristics of under-development there is high levels of infrastructure backlog, which includes roads, water and sanitation, electricity, schools, clinics and hospitals.

## BASIC SERVICE DELIVERY

There is an estimated access road backlog of about 350 kilometers; the Municipality only managed to construct 59.9 Kms of roads as per Municipal Infrastructure Grant allocation. On the other hand we set ourselves a target of maintaining 128 Kms of existing roads. Maintenance is only going to be possible when we acquire and run an internal plant unit. To this end the Municipality will be purchasing a full plant unit and qualified drivers and operators for road maintenance as we seek to increase the rate at which we maintain our access roads. We have indeed performed relatively well in this aspect as our expenditure was at 95% at the end of the financial year and we hope to increase and improve that in the years ahead.

We have also started construction of Community Halls in two wards, however, the pace of construction has been very slow because of political issues and non-performing contractors. We will focus on this matter in the financial year ahead. Equally, we have not performed well in building sports fields and maintaining the existing ones. It is clear we have to have a different strategy in this regard.

In terms of powers and functions and Part B of schedule 4 and 5; the water and sanitation function is not a Local Municipality function, however, it remains a major consternation. Almost 70% of people in Mbizana do not have access to portable water and an equal percentage does not have access to dignified sanitation. We intend to engage the District Municipality in this regard going forward.

## LOCAL ECONOMIC DEVELOPMENT

As indicated before that unemployment is alarmingly high, job creation remains a key issue to resolve. We have over the period been working with the Community Work Programme where in a substantial number of people have been employed and thereby making a mark in reducing unemployment. We have ten wards that have participated in the Community Work Program employing an average of 100 people per ward. This means we have been able to create a total of 1000 jobs over this period through the CWP.

We also have managed to provide infrastructure to the informal trading sector and we are regulating it. We still need to provide more support infrastructure to the informal sector, as it constitutes a sizable number in the economic activity in Mbizana.

The tourism sector needs a clear coordination for it to perform better; to this extent we started a process of putting together a Tourism Development Strategy that will be adopted in the following financial year.

Whilst agriculture is potentially an economic driver in this Municipality, there is no Agriculture development Plan that must help us coordinate and facilitate agricultural development working together with the Department of Rural Development and Agrarian Reform. The Land Restitution program has also had some unintended consequences that resulted in some prime economic land unused due to disputes. If development has to happen then all efforts must be done to put to rest the land restitution issues.

## FINANCIAL VIABILITY

The Municipality remained liquid enough to meet its obligations of service delivery, personnel and others. There is a high grant dependency as the revenue constituted less than a third of the total budget. We need a revenue enhancement strategy so as to ensure that our collection rate is improved. What have been of concern are the audit findings of the Auditor General. We have had a disclaimer of opinion for the two years running. The action plan has been developed to turn the situation around. It is clear that there is some work that must be done regarding the control environment and addressing issues of the past financial years that have a recurring effect in terms of the audit findings.

The Municipality also resolved on instituting a forensic audit as part of a process to find a root cause of the disclaimer of opinion from the Auditor General. To this end we are confident that in the financial year ahead we will be able to turn the situation around.

## PUBLIC PARTICIPATION AND GOOD GOVERNANCE

In terms of Public Participation and Good Governance a lot of work has been done and there has been reduced findings by the Auditor General. We will continue to work with our communities for ensuring a better governance, transparency and accountability to the electorate.

## CONCLUSION

Our systems of administration and policy environment continue to improve with time and we are convinced it is indeed going to be better. We have to make hard choices so as to ensure that we deliver services in a most cost effective way and ensure that financial management is tightened as resources are under pressure. We note the high levels of backlog that we have to address and we seek to appeal to all tiers of government to work with us.







# PART TWO



# Chapter 1: Human resource and other organization management - KPA 1

## 1.1 Presentation of the organizational structure

The total number of approved posts as per organogram is 302 and there have been no changes to the structure for this financial year. 118 posts are vacant on the structure, there were no signed agreements for this financial year.

## 1.2 Staff development initiatives during the Financial Year

### STUDY ASSISTANCE PAID

<i>Initials &amp; surname</i>	<i>Course &amp; level of study</i>	<i>Amount paid</i>
N Rabi	Dip Public Mgt 3	R 9 625,00
B Bhani	Traffic Control & Police Mgt3	R 6 800,00
K. Khondlo	BA Communication Science	R 10 160,00
N. Mqeke	BA Information Science	R 7 332,00
N Ntlanga	BA Social Sciences	R8 490,00
CN Bekiswa	Computer course	R3 750,00
N. Mshweshwe	Diploma: Payroll Administration	R11 500,00
QLZ Mabude	Bcom Law	R5 652,00

## STUDY ASSISTANCE RECOVERED

No recoveries were made this year as there were no employees who have not met the terms of the study assistance agreement.

## WORK PLACE SKILLS PLAN ALIGNED AND NON ALIGNED TRAINING PROGRAMMES IMPLEMENTED

<i>Category</i>	<i>Course</i>	<i>Amount</i>
Cllr M. Twabu	CPMD	R45 000
Cllr TD Mafumbatha	CPMD	R45 000
Cllr M Mahlaba	CPMD	R45 000
Cllr L Makholosa	ELDVP	R15 600
Cllr Msokana	ELDVP	R15 600
Cllr S Magini	ELDVP	R15 600
Cllr N Madikizela	ELDVP	R15 600
Cllr Ndakayi	ELDVP	R15 600

## OTHER PROGRAMMES IDP WITH PROVINCIAL TREASURY

ZA Zukulu	CPMD	R45 000
V Mhlembana	CPMD	R45 000
WA Ayano	CPMD	R45 000
B. Mazingisa	CPMD	R45 000.00

## 1.3 Key HR statistics per functional area

### 1. FULL TIME STAFF COMPLEMENT PER FUNCTIONAL AREA (EXAMPLES ARE GIVEN BELOW)

#### a) MM/Section 57 and Line Managers

	<i>Department</i>	<i>Number of approved and budgeted posts</i>	<i>Filled posts</i>	<i>Vacant posts</i>
1	Municipal Manager	06	06	01
2	Corporate Service	04	03	01
3	Budget & Treasury	04	04	0
4	Community development	04	04	0
5	Planning & Infrastructure	04	03	01
	Total	22	20	03

#### b) Staff complement per functional areas in the technical services (E.g water, sanitation, waste management, electricity etc...)

<i>Functional Area</i>	<i>Number of staff</i>
Electricity	05
Waste Management	

## 2. TECHNICAL STAFF REGISTERED WITH PROFESSIONAL BODIES

<i>Technical Services</i>	<i>Total Number of Technical Service Managers</i>	<i>Total Number registered in the accredited Professional bodies</i>	<i>Total number pending registration confirmation in the accredited professional body</i>	<i>Total number not yet registered in the accredited professional body</i>
Manager	1	0	0	1
Assistant Manager	0	0	0	0
Technical Officer	03	0	0	03
Building Inspector	01	0	0	01
Estate Officer	0	0	0	0
Electricity				
Senior Electrician	0	0	0	0
Electrician	01	0	0	01

## 3. LEVELS OF EDUCATION AND SKILLS

<i>Total number of staff</i>	<i>Number of staff without Grade 12</i>	<i>Total number of staff with Senior certificate only</i>	<i>Number of staff with Tertiary/ accredited professional training</i>
Corporate Services	5	8	5
Office of the Municipal Manager	1	4	6
Infrastructure & Planning	3	5	8
Budget & Treasury Office	0	6	4
Community & Social Service	25	6	13
<b>Total number of staff</b>	<b>34</b>	<b>29</b>	<b>36</b>

## 4. TRENDS ON TOTAL PERSONNEL EXPENDITURE

<i>Financial Years</i>	<i>Total number of staff</i>	<i>Total approved operating Budget</i>	<i>Personnel expenditure (salary and salary related)</i>	<i>Percentage of expenditure</i>
2010 - 2011	201	R22 451 260.00	14 705 378.65	65.49%

## 5. LIST OF PENSION AND MEDICAL AIDS TO WHOM EMPLOYEES BELONG (PLEASE ADD IF NECESSARY)

<i>Names of pension fund</i>	<i>Number of members</i>	<i>Names of medical Aids</i>	<i>Number of members</i>
1.ECMPF	40	Bonitas	32
2.SAMWU Provident Fund	51	Hosmed	12
		LA Health(Discovery)	24
		Oxgen	00
		SA MWU MED.	16

## 1.4 Senior officials' wages and benefits (even if included in the financial statements)

<i>Title</i>	<i>Total package</i>
Municipal Manager	R837 625.11
CFO	R694 906.87
Corporate Services Manager	R694 906.87
Community Development Manager	R694 906.87
Planning & Infrastructure Manager	R694 906.87



## 1.5 Major challenges and remedial actions in regard to human resource and organizational management

### CHALLENGES

- Shortage of office space
- Attract and retain skilled and qualified personnel
- Instable power supply in the server room
- Late submission of payroll exceptions,
- Misunderstanding of conditions of employment by senior managers supervisors,
- Correct implementation of policies,
- Benchmarking of positions that were not addressed in the evaluated organogram,
- Grading system not properly used by senior managers

### REMEDIAL ACTIONS

- Managers and Supervisors should be trained on all Labour related issues
- All HR sub-committee members should be trained on their relevant tasks / functions
- HR policies should be implemented accordingly
- Provision of UPS (red plugs) to server room and all strategic offices.
- Involvement of managers and supervisors in the training programmes of their subordinates.

## 1.6 Summary of human resources indicators

<i>Indicator name</i>	<i>Total number of people (planned during the year) under review</i>	<i>Achievement level during the year under review</i>	<i>Achievement percentage during the year</i>	<i>Comments</i>
Vacancy rate for all approved and budgeted posts	164	78 staff employed during that financial year	78%	Office space is still a challenge. Avoid to exceed National Treasurer threshold on personnel expenditure.
Percentage of appointments in strategic positions ( Municipal Manager and section 56 Managers)	99%	Five Managers employed out of six	99%	None
Percentage of section 56 Managers including Municipal Manager at least one skill development training course within full year	100%	Enabled the Managers to understand their core responsibilities in the Municipality	100%	None
Percentage of Managers in Technical services with professional qualification	1%	Very low	1%	Graduates who are employed as Technical Managers are encouraged to affiliate to their professional bodies.
Percentage of a municipality within the district area that have a fully functional PMS	None			None
Percentage of staff that have undergone skills audit ( including competence profiles)	100 %	Skilled employees to speed up service delivery	100%	
Percentage of councillors who attended a skill development training within five years	8%	Skilled Councillors in areas of service delivery ( 3 attended CPMD, 5 attended Executive Leadership Programme)		
Percentage of staff compliant with disability	1%	Very low	1%	Still not complying fully with Employment Equity Act.
Percentage of female employees	60%	Complying with Affirmative Action	60%	Only one section 56 Manager who is a lady out of five filled posts.
Percentage of employees are aged 35 or younger	58%		58%	
Policy Review	100%	12 policies reviewed during on 2010/ 2011 financial	100%	

## 1.7 Annual performance as per key performance indicators

### ORGANISATIONAL MANAGEMENT

KPA	Strategy	Indicator	Objective	Baseline
Organizational structure & recruitment	Review the organogram to be in line with the powers, functions and budget	Council Approved the organogram	To ensure alignment of organ gram with the ssigned powers and functions	Implementation of approved organogram
Policy Development and reviewal process	Development of policies	Council approves new policies		10 new policies have been adopted by the Council
ICT		To ensure proper implementation of all planned and Budgeted ICT projects.	To ensure benefits through exploitation of available technology	ICT strategy not in place, internet connectivity not consistent. Website not running.
		To ensure that the institution is running current system versions and platforms.		VIP, Email servers and network infrastructure need to be upgraded, and hardware platforms need to be improved
		Telephone management and ICT systems development and management, Printing solutions development, Backup and monitoring, Network design and administration.		PABX system to be upgraded, network servers and shared environment not in place, backup monitoring not in place.
Employee Wellness	Finalise and implement EAP policy	Council approve EAP policy	To promote employee wellness and moral in the work place	EAP policy adopted
Labour Relations	Reconstitute Labour Forum	Fully functional Labour Forum	To promote good labour relation and effective dispute resolution processes	The Labour Forum sit monthly
	Employment Equity	Formulate Employment Equity Plan	To promote transformation through employment opportunities	40% compliant with national indicators
	Occupational Health & Safety	Review & adoption and implantation of health and safety	Promote occupational Health & Safety compliance	Occupational Health & Safety Committee has been established
Fleet management	Review the transport management policy	Table transport policy to Council for approval	To ensure properly managed fleet	Transport policy adopted
Training & Development	Review skills development plan to be responsive capacity challenges	Exco approve skills development plan	To ensure that skills received address Institutional capacity challenges	WSP submitted to LGSETA and gave the Municipality and amount R70,000,00.
	Study Assistance	Advise and give support to employees on career growth		Improve staff morale and performance
	In service Training Programme	Training Committee agrees with the number of students to be taken and Municipal Manager approves	Respond to the National Skills Development Strategy	Approved number of Students to be taken
	Training of Directors and Managers	Training to be received by Managers on CPMD	Responding to the Institutional needs and the objectives of the turnaround Strategy	Improvement of Financial Management Capacity

<i>Target</i>	<i>Actual performance</i>	<i>Reasons for variance</i>	<i>Remedial Action</i>
Fill the budgeted posts in the new organogram after the mid –year assessment budget	Filling of budgeted posts ( 68 posts)	Finalise appointment	N/A
Review outdated policies	60% of outdated policies have been reviewed	N/A	N/A
ICT Policies developed, ICTSC established, internet improved, website developed, ICT strategy developed	ICT policies developed ready for workshop and adoption, ICTSC established, internet capacity improved by Telkom, website up and running, ICT strategy not developed.	ICT strategy was advertised more than three times but SCM couldn't get suitable service provider. The last attempt is when one provider was promising to deliver but time was against us meaning we were not going to execute all procurement resources due to financial year end.	We honestly believe that the annual procurement plans route will assist a lot hence we believe that SCM is congested which contributes badly to their pace of delivery.
VIP running in the network for all users, Emails hosted, network infrastructure upgraded, hardware and software platforms. improved.	VIP is running in the network for all users and VIP server was procured, Mbizana emails, network infrastructure improved but not up to expectations, hardware and software platforms improved, like we manage to procure more 20 computers (Desktops and Laptops)	Our budget limited us on infrastructure upgrade and development. The other problem that holds us at ransom is the issue of power fluctuation in our server room and this problem is very serious in such a way that we utilize our budget on maintenance and disaster recovery.	The relevant department must urgently attend to power stability in the server room and new offices. We even recommended the UPS and installation of red plugs in the server room and all our offices.
PABX upgraded, network sharing services to be implemented to ensure file sharing and central backup.	Telephones up and running, shared environment implemented, backup monitored consistently.	Power trip is a serious problem more especial on the PABX system and Financial system server.	An urgent consideration of power failure and procurement of UPS to cover all application servers and systems.
Table EAP to the Council the implementation of the process mapping	Establishment of EAP committee to drive the implementation phase	N/A	Establish employee wellness committee
Provision of administrative support to Labour Forum	Improved cordial relationship between employer and the employee	N/A	Schedule the meetings of labour forum
Target 60% to be fully compliant	EEP Planning process	N/A	Establish employment equity committee
Implementation of OHS Plan	The OHS committee has performed its initial core responsibility by conducting inspection to all the municipal premises where employees are exposed to health hazards	Conduct workshops for OHS committee	Insufficient funds
Implementation of the transport policy	Transport policy is under implementation	N/A	N/A
Improve skills development plan	Results of the skills audit have been handed over by DPLG	Skills audit not reflecting the actual qualifications employee possess	Alignment of information contained in the skills audit to address skills ga
8 employees were given study assistance	Improve performance of employees in line with powers and functions of the municipality	Municipal Financial capacity	
7 University students were taken and distributed to various Departments	Students continue to receive necessary support to obtain skills required.	Capacity and funding of the Programme will always be a challenge	N/A
2 Managers were registered at Wits for CPMD	The targeted category of Municipal Officials is attending the programme	Time spent for the Training and Finances affect other Municipal operations	N/A





## Chapter 2: Basic service delivery performance highlights - KPA 2

### 2.1 Water services (max 2 pages)

#### **A. WATER SERVICES DELIVERY STRATEGY AND MAIN ROLE-PLAYERS:**

Water Service delivery is the competence of the District Municipality, we are the beneficiary of the service.

#### **B. LEVELS AND STANDARDS IN WATER SERVICES:**

Water Service delivery is the competence of the District Municipality, the information provided below is based on Statistic South Africa 2007, after that there is no project that took place.

## C. ANNUAL PERFORMANCE AS PER KEY PERFORMANCE INDICATORS IN WATER SERVICES

	<i>Indicator name</i>	<i>Total number of household/customer expected to benefit</i>	<i>Estimated backlogs (actual numbers)</i>	<i>Target set for the FY under review (actual numbers)</i>	<i>Number of HH/customer reached during the FY</i>	<i>Percentage of achievement during the year</i>
1	Percentage of households with access to potable water	N/A	N/A	N/A	N/A	N/A
2	Percentage of indigent households with access to free basic potable water	N/A	N/A	N/A	N/A	N/A
4	Percentage of clinics with access to potable water	N/A	N/A	N/A	N/A	N/A
5	Percentage of schools with access to potable water	N/A	N/A	N/A	N/A	N/A
6	Percentage of households using buckets	N/A	N/A	N/A	N/A	N/A

## D. MAJOR CHALLENGES IN WATER SERVICES AND REMEDIAL ACTIONS

<i>Challenges</i>	<i>Remedial Action</i>
Prioritization of water projects is done without involving the council of the Municipality	Executive committee need to be consulted whenever projects are to be discussed at the District level.
Transitional processes have affected water services as a result of slow TFC progress	Finalise TFC processes and attend to existing water schemes as a matter of urgency
Local community members not allowing water pipe lines to run on their fields until their demands are met	To allow legal action take a course and/or meet the demands.

## 2.2 Electricity services

### A. ELECTRICITY SERVICES DELIVERY STRATEGY AND MAIN ROLE-PLAYERS

The Mbizana Local Municipality serves as a service provider for the provision and maintenance of electricity to the residents of the town of Bizana which is the seat of the local municipality. Currently there are around 2000house holds being served. Currently there are not more than 543houses that do not have electricity. On the other side ESKOM provides the service of electricity to the rest of the municipal area starting from the outskirts of the town of Bizana.

The demand for electricity is ever increasing as more residential houses are being constructed and the increasing demand of having business complexes informed the need to have a power reserve of at least 10MVA during the next three years period over and above of the currently available 3MVA.

The strategy then to be followed is to increase the bulk infrastructure of the town in collaboration with ESKOM, over the coming three years period.

The municipality is licensed to distribute electricity by National Electricity Regulator of South Africa (NERSA). According to schedule one of the license agreement the MLM can distribute to the following areas;

- BIZANA RURAL TRC (WHOLE)
- BIZANA TLC (WHOLE)
- MAXESIBENI TRC (PORTION)
- SIPHAGENI TRC (PORTION)

On the other hand, according to ESKOM, it has planned to connect all houses in its service area by 2015 after having availed bulk infrastructure through building a new substation at Zwelethu with capacity of 30 – 40MVA together with the upgrading of the existing Ludeke substation. Currently the Ludeke substation is upgraded and the Zwelethu Substation is under construction bound to give its services starting April 2012.

## B. LEVEL AND STANDARDS IN ELECTRICITY SERVICES

Currently, the lowest level of service is to provide a single phase and 20Amps current to households. The other levels of service are dependent on the need and size of the structure to be served

## C. ANNUAL PERFORMANCE AS PER KEY PERFORMANCE INDICATORS IN ELECTRICITY SERVICES

	<i>Indicator name</i>	<i>Total number of household/customer expected to benefit</i>	<i>Estimated backlogs (actual numbers)</i>	<i>Target set for the f. year under review (actual numbers)</i>	<i>Number of HH/customer reached during the FY</i>	<i>Percentage of achievement during the year</i>
1	Percentage of households with access to electricity services	49 300	32 970	5 300	5 300	100%
2	Percentage of indigent households with access to basic electricity services	10 350	8 808	212	212	100%
4	Percentage of indigent households with access to free alternative energy sources	640	N/A	N/A	N/A	N/A

## D. MAJOR CHALLENGES IN ELECTRICITY SERVICES AND REMEDIAL ACTIONS

<i>Challenges</i>	<i>Remedial Action</i>
In availability of bulk infrastructure	Fast track the availability of bulk infrastructure
In fills not being addressed	Address in fills and rural sprawl which seems unmanageable
Availability of fund not corresponding to the level of backlog vs universal access deadline	Avail funds in consistency with addressing of the backlog

## 2.3 Sanitation

### A. SANITATION SERVICES DELIVERY STRATEGY AND MAIN ROLE-PLAYERS

Sanitation is the competency of the District Municipality.

### B. LEVEL AND STANDARDS IN SANITATION SERVICES

Sanitation is the competency of the District Municipality.

### C. ANNUAL PERFORMANCE AS PER KEY PERFORMANCE INDICATORS IN SANITATION SERVICES

	<i>Indicator name</i>	<i>Total number of household/customer expected to benefit</i>	<i>Estimated backlogs (actual numbers)</i>	<i>Target set for the f. year under review</i>	<i>Number of HH/customer reached</i>	<i>Percentage of achievement during the year</i>
1	Percentage of households with access to sanitation services	N/A	N/A	N/A	N/A	N/A
2	Percentage of indigent households with access to free basic sanitation services	N/A	N/A	N/A	N/A	N/A
4	Percentage of clinics with access to sanitation services	N/A	N/A	N/A	N/A	N/A



5	Percentage of schools with access to sanitation services	N/A	N/A	N/A	N/A	N/A
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## D. MAJOR CHALLENGES IN SANITATION SERVICES AND REMEDIAL ACTIONS

Sanitation is the competency of the District Municipality.

<i>Challenges</i>	<i>Remedial Action</i>
There is no water borne sewage collection system in the town of Bizana	Funds to be set aside to do feasibility study for sewer borne system.
Unmanaged and unenforced status of Effluents from septic tanks of businesses and residences continued affecting the environment	The custodian of the by-law (ANDM) need to enforce and manage effluents through continuously availing honey suckers.
Effluent is visible flowing in the streets	Non compliant customers to be charged
Night soil ponds once used by prison not reinstated and as a result threatening environmental hazard	Public works department together with the department to take action of reinstating the night soil pond.
Night soil pond getting full and not attended properly	The DM to monitor and attend to the night soil pond. Action plan required to either construct a new night soil pond or fast track a water borne sewage system with a waste treatment plant

## 2. 4 Road maintenance

### A. ROAD MAINTENANCE SERVICES DELIVERY STRATEGY AND MAIN ROLE-PLAYERS

Road construction and maintenance is one of the core functions of our local municipality. However the provincial as well as national departments of road and transport are key role players as a number of provincial roads and roads that cut across the municipality are constructed and maintained by them.

Generally, municipal access roads are built within the municipal boundary and are constructed to a width of 5meters and finished with 150mm thick gravel wearing course. The lengths of such roads are dependent on the communities they are meant to serve and the availability of funds.

Provincial roads do have a minimum width of 7meters and it can either be finished with gravel wearing course or tarred. As well here the level, quality and length of the road to be constructed or maintained depend on the volume of traffic and availability of funds.

### B. LEVEL AND STANDARDS IN ROAD MAINTENANCE SERVICES

In terms of constructing new roads; a 5meter access road having slopes less than 12% , a minimum turning radius of 20meters, sufficiently provided with longitudinal and cross storm water drainages, erosion protection structures, sufficient road signs in place and finished with gravel wearing course of G5 material is a basic level service.

An access road having the above specification and a width of 7meters will be a medium level service.

An access road having the above specification with 7meter width and black top surfacing is a high level service. Black top surfacing is classified either as a low volume seal or high volume seal.

In terms of Road maintenance; wet blading to gravel surfaces and pothole patching in the case of tarred roads is the first level maintenance activity provided that the activity renders the road under concern to be trafficable. Reshaping, re-gravelling, maintain edge breaks and other identified defects in selected sections of a given road is a middle level service. Whereas, rehabilitation or reconstruction of road is meant to restore a given road to its original state and is a high level service.

During the current financial year 140kms of access roads have been maintained.

### C. ANNUAL PERFORMANCE AS PER KEY PERFORMANCE INDICATORS IN ROAD MAINTENANCE SERVICES

<i>Indicator name</i>	<i>Total number of household/ customer expected to benefit</i>	<i>Estimated backlogs (actual numbers)</i>	<i>Target set for the f. year under review (Actual numbers)</i>	<i>Number of HH/customer reached during the FY</i>	<i>Percentage of achievement during the year</i>
1 Percentage of households without access to gravel or graded roads	49 300	454km	1 995	1 596	95%
2 Percentage of road infrastructure requiring upgrade	24 650	526km	1.7km	250	10%
4 Percentage of planned new road infrastructure actually constructed	2 650	526km	39.9km	1596	95%

5	Percentage of capital budget reserved for road upgrading and maintenance effectively used.	49 300	34 510	948	759	80.06%
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## D. MAJOR CHALLENGES IN ROAD MAINTENANCE SERVICES AND REMEDIAL ACTIONS

<i>Challenges</i>	<i>Remedial Action</i>
Poor state of infrastructure; especially roads	Continued political pressure to influence the formula of funding allocation to rural municipalities such as MLM
Lack of sufficient funds to construct and maintain more roads.	Lobby funds from other sources and from all possible avenues
Availability of fund not corresponding to the level of backlog vs universal access timeline	Avail funds in consistency with addressing of the backlog
In availability of tarred access roads.	

## 2.6 Housing and town planning

### A. HOUSING AND TOWN PLANNING SERVICES DELIVERY STRATEGY AND MAIN ROLE-PLAYERS

#### Housing

Housing is the competency of the provincial department of Human Settlement. At the municipality level compilation of beneficiaries is done and based on the approval of funding follow up of implementation is practiced together with officials from the Department of Human Settlement.

#### Town Planning

Planning proposal is one of the main functions of our municipality. Eventually, the planning proposal whether it is Rezoning, Sub-division, Consent use, Removal of restrictive conditions or Township establishments it has to be submitted to the MEC for Local Government and Traditional Affairs for final approval.

### B. LEVEL AND STANDARDS IN HOUSING AND TOWN PLANNING SERVICES

The commonly known RDP houses are taken to be basic level services. In town planning services a site serviced with access gravel road, water and electricity is considered as basic level service.

### C. ANNUAL PERFORMANCE AS PER KEY PERFORMANCE INDICATORS IN HOUSING AND TOWN PLANNING SERVICES

<i>Indicator name</i>	<i>Total number of household/customer expected to benefit</i>	<i>Estimated backlogs (Actual numbers)</i>	<i>Target set for the f. year under review</i>	<i>Number of HH/customer reached</i>	<i>Percentage of achievement during the year</i>
1 Percentage of households living in informal settlements	49 300	29 316	600	200	33%
2 Percentage of informal settlements that have been provided with basic services	29 316	27 264	988	255	25.8%
3 Percentage of households in formal housing that conforms to the minimum building standards for residential houses	49 300	38 664	188	188	100%

### D. MAJOR CHALLENGES IN HOUSING AND TOWN PLANNING SERVICES AND REMEDIAL ACTIONS

<i>Challenges</i>	<i>Remedial Action</i>
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Few numbers of housing projects in place as opposed to the need for universal housing target.	Package more projects annually to meet the aforesaid target
No support from provincial department in terms of achieving its target of universal access and removal of barriers.	Provincial department to work more closely with our municipality in strategically addressing the housing backlog.
Delay in the implementation of rural houses in ward 2	The department to fast track the appointment of service provider to complete the outstanding work

## 2.7 Spatial planning

### A. PREPARATION AND APPROVAL PROCESS OF SDF

Draft SDF in place. Currently on public comment stage.

### B. LAND USE MANAGEMENT

There were two rezoning and sub-divisional applications that were forwarded to the province for approval and one township establishment is in the process of submission to the province.

### C. MAJOR CHALLENGES IN SPATIAL PLANNING SERVICES AND REMEDIAL ACTIONS

No challenge

## 2.8 Indigent policy implementation

### A. (SEE UNDER LED)

## 2.9 Overall service delivery backlogs

<b>Water backlogs (65KL/month)</b>	Required	Budgeted	Actual	Required	Budgeted	Actual	Required	Budgeted	Actual
Backlogs to be eliminated (n0. HH not receiving the minimum standard service)	45,651.8			45,651.8			45 651.8		
Backlogs to be eliminated (%: total HH identified as backlog/ total number of HH in the municipality)	92.6%			92.6%			92.6%		
Spending on new infrastructure to eliminate backlogs (R000)									
Spending on renewal of existing infrastructure to eliminate backlog (R000)									
Total spending to eliminate backlogs (R000)									
Spending on maintenance to ensure no new backlogs (R000)									
<b>Electricity backlogs (30KWH/month)</b>	Required	Budgeted	Actual	Required	Budgeted	Actual	Required	Budgeted	Actual
Backlogs to be eliminated (n0. HH not receiving the minimum standard service)	33,000		1,500	31,500		5,129	26200	5300	
Backlogs to be eliminated (%: total HH identified as backlog/ total numb of HH in the municipality)	67%		3.04	63.96		10.4%	53.2		10.8%



Spending on new infrastructure to eliminate backlogs (R000)	20,000	100,000	0	20,000	100,000	0			
Spending on renewal of existing infrastructure to eliminate backlog (R000)	5,800	5,800	0	5,800	5,800	0			
Total spending to eliminate backlogs (R000)	25,800	105,800		25,800	105,800				
Spending on maintenance to ensure no new backlogs (R000)									
<b>Sanitation backlogs</b>	Required	Budgeted	Actual	Required	Budgeted	Actual	Required	Budgeted	Actual
Backlogs to be eliminated (n0. HH not receiving the minimum standard service)	35,989	11,568					22 678		
Backlogs to be eliminated (%: total HH identified as backlog/ total numb of HH in the municipality)	73%								
Spending on new infrastructure to eliminate backlogs (R000)									
Spending on renewal of existing infrastructure to eliminate backlog (R000)									
Total spending to eliminate backlogs (R000)									
Spending on maintenance to ensure no new backlogs (R000)									
<b>Road maintenance backlogs</b>	Required	Budgeted	Actual	Required	Budgeted	Actual	Required	Budgeted	Actual
Backlogs to be eliminated (n0. HH not receiving the minimum standard service)	18,488	1,277	1,277	17,211	1,631	1,631	15580	1995	1596
Backlogs to be eliminated (%: total HH identified as backlog/ total numb of HH in the municipality)	37.5%	2.6%	2,6%	34,9%	3.3%	3.3%	31.6%	4.07%	3.3
Spending on new infrastructure to eliminate backlogs (R000)	350,000	16,000	16,000	334,000	21,000	21,000	24,000	24,000	22,800
Spending on renewal of existing infrastructure to eliminate backlog (R000)	86,000	2,100	1,000	85,300	2,100	4,300	89,139	3,839	1,003
Total spending to eliminate backlogs (R000)	436,300	18,100	20,300	456,600	23,100	25,300	564,939	27,839	23,803
Spending on maintenance to ensure no new backlogs (R000)	35,000								
<b>Refuse removal</b>	Required	Budgeted	Actual	Required	Budgeted	Actual	Required	Budgeted	Actual
Backlogs to be eliminated (n0. HH not receiving the minimum standard service)									
Backlogs to be eliminated (%: total HH identified as backlog/ total numb of HH in the municipality)									

Spending on new infrastructure to eliminate backlogs (R000)

Spending on renewal of existing infrastructure to eliminate backlog (R000)

Total spending to eliminate backlogs (R000)

Spending on maintenance to ensure no new backlogs (R000)

### **Housing and town planning**

Backlogs to be eliminated (n0. HH not receiving the minimum standard service)	30116	600	29516	200	200	29316	600	200
Backlogs to be eliminated (%: total HH identified as backlog/ total numb of HH in the municipality)	61.1%	1.99%	59.5%	0.66%	0.66%	59.1%	1.22%%	0.41%
Spending on new infrastructure to eliminate backlogs (R000)	1,716,612							
Spending on renewal of existing infrastructure to eliminate backlog (R000)	109,349	0	0					
Total spending to eliminate backlogs (R000)	1,825,961							
Spending on maintenance to ensure no new backlogs (R000)	171,661	0	0					



## Annual performance as per key performance indicators

### INFRASTRUCTURE DEVELOPMENT AND BASIC SERVICE DELIVERY

<i>KPA</i>	<i>Objective</i>	<i>Strategy</i>	<i>Departmental activity/projects</i>	<i>Key Performance Indicator</i>	<i>Baseline Measure</i>
Planning of Infrastructure	All infrastructures are planned to optimize efficient use of resources and that there is an informed decision making	Conduct planning of all infrastructural services over a longer period of time	Development of Infrastructural Plans	%of progress achieved	Draft Comprehensive Infrastructure Plan available.
Roads & Storm Water Drainage	Ensure , all nodes, service centres and tourist attraction areas are linked in a good road surface	Facilitate the provision of roads to community service centers	Construct 15 new access roads	%of progress achieved	526kms of roads linking communities

<i>Annual Target</i>	<i>Actual Performance</i>	<i>Reasons for variance</i>	<i>Remedial Action(Where applicable)</i>
Housing Sector Plan	Work being performed by Province	Delay in SCM	
Transport Infrastructure Plan	No progress	Not funded	Funding and subsequent actions
Energy Plan	No progress	Not funded	Funding and subsequent actions
Ward Based SDF	No progress	Not funded	Funding and subsequent actions
Finalize retaining wall at Mpunzi Drift	80%	Limited capacity of contractor	
Finalize crossing at Khiphi Mabanoyini	100%		
Cabane to Crestu	64%	Contractor failed to complete the remaining portion of the works	Contractor to go back and finalize work
From DR08120- to Luthulini Great Place	100%		
From Ntshamathe shop-Ntshamathe great place	100%		
Nkantolo great place	55%	Contractor failed to complete the remaining portion of the works	Contractor to go back and finalize work
Izinini tribal Road	100%		
Dotye -Greenville River Crossing	71%	Capacity of contractor	
Sidanga Access Road	70%	Main contractor having no commitment	Terminate the main contractor and allow sub contractor to finalize the outstanding work
Mgomanzi bridge joining ward 14- ward 19	Registered for funding in June 2011	Took longer period to register at the COGTA MIG office	
Bizana Asphalt	10%	Delay in SCM	
Mlambondaba bridge	Registered for funding in June 2011	Took longer period to register at the COGTA MIG office	
khananda heritage site access road	50%	Capacity of contractor	
Nomlacu health care centre access road & Mnt Zion J.S.S	60%	Delay in SCM	
Mtamvuna irrigation project access road	Registered for funding in June 2011	Took longer period to register at the COGTA MIG office	
Majazi maize field access road	No progress	Still in SCM	
Ntinga access road	85%		
Mbabazo access road	90%		



KPA	Objective	Ensure roads & storm water drainages are provided and maintained	Facilitate roads maintenance by providing sufficient storm water drainage.	Conduct storm water drainage maintenance o 128kms of roads	%of progress achieved	360kms of roads maintained during the last two financial years
			Avail a fleet of construction equipment for the purpose of maintaining roads	Purchase 5 construction machineries.	%of progress achieved	Only one grader available with excessive down time
			Conduct wet blading to highly damaged roads	Wet blading to 60kms of roads	%of progress achieved	Over 90kms of road has been bladed during last financial year
				Upgrading of roads in town to include storm water drainage system	km of roads with storm water drainage	quarterly reports
		Maintain CBD roads and storm water drainages	Pothole & edge patching, cleaning crossings, road marking & repairing of inlet and outlet structures	CBD roads free from potholes, deblocked drains and road marking in place		80% CBD roads free of defects
			Development and implementation of a roads maintenance plan	Prepare a maintenance plan	Maintenance plan adopted	quarterly reports
			<b>Strategy</b>	<b>Departmental activity/projects</b>	<b>Key Performance Indicator</b>	<b>Baseline Measure</b>

Town Hall	Ensure provision of a Town Hall in town	Undertake a fundraising process to construct a town hall in Bizana	Conduct fundraising processes	Milestone towards achieving of the objective	Quarterly reports
Community Facilities	Ensure that community facilities are in place that are compliant to acceptable standards	Facilitate provision of multi - purpose community centres to all wards	Construct two community halls	Percentage of progress achieved	16 Community halls in 16 wards
Taxi and bus rank facilities	Ensure proper operational management and maintenance of the taxi rank	Develop an integrated operational plan for taxi rank market stalls	Develop Operational Plan for Bizana Taxi Rank	Exco approved operational plan	Quarterly reports
	Ensure provision of an appropriate bus rank in town	Facilitate provision of an appropriate bus rank in town	Assess & develop a business plan for provision of bus rank	Business plan developed	Use of an illegal bus ranks
		Provision of public transport shelter facilities along major routes	Assess & develop a business plan for provision of transport shelter facilities	Exco approved business plan	Quarterly reports
		Facilitate completion of the taxi rank	Facilitate installation of lighting and area lighting	Milestones towards completion of the project	Taxi rank lacking lighting

Maintain 128kms of roads including storm water drainage	No progress	Appointment did not take place	Appoint service providers to finalize work
Procure a grader, excavator, roller, low bed(with tipper body) and water truck	Only gradre and roller has been procured	Delay in the SCM process	Complement the outstanding machineries through urgent procurement process
Wet blading of 60kms	140 kms bladed		
Pothole and edge maintenance to the CBD	No progress	No service provider appointed as SCM process was delayed	
<i>Annual Target</i>	<i>Actual Performance</i>	<i>Reasons for variance</i>	<i>Remedial Action(Where applicable)</i>
Construct Ward 11 community hall	80%	The appointed service provider failed to deliver untill it cedded the work to a sub contractor	
Ward 23 community hall			
Construct Ward 23 community hall	30%	Poor performance of the contractor and consultants - consultant produced three contradicting plans	Terminate the consultant who failed to provide proper advice
Develop business plan and source funding	No progress	SCM process never kicked off	Appoint service provider
Provide lighting to the taxi rank	Lighting provided		

Transport facilities	Ensure transport facilities are provided	Provide Vehicle Testing service	Facilitate completion of the construction process and upgrading of the learners center and the Vehicle Testing Station (VTS)	%age of completion achieved	Learners testing center under finalizations
		Relocate Air strip	Facilitate through negotiation availability of land suitable for landing of light aeroplanes	Percentage of completion achieved	The current air strip is zoned for housing and business development
Sport Field	Provision and maintenance of Sport Fields	Construct one sport field per ward	Sport field construction	Percentage of completion achieved	Prioritization done
		Facilitate maintenance	Facilitate maintenance of Mbizana sportfield	Percentage of completion achieved	Sport field in bad condition
Public transport	Ensure access to reliable and safe public transport facility	Working with relevant government departments to facilitate all major routes are accessible	Coordinate with Department of Roads & Transport to ensure AWRM project and household contractors programme function as per plan Process; proclaiming of unproclaimed roads	Milestone towards achieving of the objective	Quarterly reports
<b>KPA</b>	<b>Objective</b>	<b>Strategy</b>	<b>Departmental activity/projects</b>	<b>Key Performance Indicator</b>	<b>Baseline Measure</b>
Electricity	Ensure reliable provision of electricity to the urban area of Mbizana	Ensure all households, community services centres, business and institutions have access to electricity	Connect 388 households and 2 businesses	number of connected households, institutions, business and community service centres	165 houses connected in the town of Bizana
		Attend to interruptions	Maintain the existing electricity network & connections	Reduction in the number of interruptions	Nine power interruptions last year
		Solicit funding from DME to make connection to RDP houses	Process securing of funding from DME for the 188 houses under construction	amount of funds secured	Quarterly reports
	Ensure street lighting is provided to streets of settlements areas	Maintain the continuity of already provided street lighting	Increase local revenue from electricity consumers	number of billable electricity consumers	Quarterly reports
			provide street lighting to the CBD by underground reticulation	%age of completion achieved	105 Globes have been changed last year
			Facilitate the expansion of Ludeke & the establishment of Zwelethu substations	progress in requirements met by ESKOM	One new Substation (Zwelethu) under planning stage & Ludeke under expansion planning stage
			Coordinate the electricity connection of households	number of households connected	67% of households not electrified. Currently 5,500 connections are ongoing
License & Tariff	To obtain renewed license from NERSA & approved tariff on annual basis	Ensure compliance with service regulatory prescripts	Process renewal of Electricity provision license	License renewed	License Renewed for 2008/09
		Propose new tariffs	Develop a new electricity tariff	Approval of new tariff by NERSA	Tariff approved for 2009/10

Paving of the testing station	30% of the Testing station paved	Service provider having no capacity and commitment and none payment of labour force	Terminate the contractor and appoint a capable contractor
Appoint a social facilitator to negotiate with communities to acquire an air strip around town	None	The appointed service provider was a civil engineering consultant and not a social facilitator	Appoint a social facilitator
Construct two soccer fields	One is under progress while the other did not start	Community members stopped the contractor from constructing - saying that was the same contractor who delivered the failed sport field	

<i>Annual Target</i>	<i>Actual Performance</i>	<i>Reasons for variance</i>	<i>Remedial Action(Where applicable)</i>
connect 388 households and two businesses	Connected 45 households and two businesses	delay in supply chain process and under performance by the service provider	Terminate the failing contractor and finalize the works through subdividing the works and by appointing more than one service provider
Reduce the number of interruptions through upgrading the existing network	Outage increased from the past year by three	Aging electricity network and increase in power demand	Upgrade the supply of electricity to town and reconstruct the network in extension 4
R 40,000			

Provide street lighting to the main street of the town	Street lighting provided		
Facilitate the expansion of Ludeke and the establishment of Zwelethu sub station	Ludeke substation upgrading done and Zwelethu line construction under progress	None	
Connect 5300 houses with electricity	5300 houses have been connected with electricity	None	
License renewal	License renewal is under process	Delay experienced due to shortage in manpower	Appoint Electricity section head
Develop new tariff structure and get the approval of NERSA	Tariff approved by NERSA	None	

Town & Regional Planning	Avail land for purposes of development, housing and businesses and manage town planning in a scientific manner	Create a township having residential, business and industrial sites	Facilitate the creation of a township on the portion of land eastwards of & Bargain wholesalers & Transido	Milestone achieved	One township establishment is under process of registration.
	Town settlement upgrade		Facilitate the finalization in situ settlement upgrade at down town of bizana	Milestone achieved	Plan has been finalized during the previous fiscal year. Housing subsidy is approved.
Human Settlement	Ensure provision of housing to all residents	Provision of middle income housing development	Facilitate the finalization by the province of one middle income housing project	milestones towards achievement of the objective	One Middle income housing application on process. Plan has been approved by council during last financial year.
		Provision of low income housing to all indigent households	Registration of beneficiaries & liaison with the relevant departments	Milestone achieved	Currently there are 1588 households have been registered and subsidy approved
		Facilitate proper zoning for business and industrial development sites	Process zoning for business and industrial sites	approved layout by dept. of housing	Zonal scheme on a draft stage
		Gazetting the zoning scheme	Process the gazetting of zoning scheme	Zoning scheme gazetted	The zoning scheme is in process

KPA	Objective	Strategy	Departmental activity/projects	Key Performance Indicator	Baseline Measure
Building Control	To ensure a safe built environment	Ensure compliance of infrastructures against building regulations	Conduct a routine building control and approval of plans	level of compliance	33 Projects approved last year
			Demolitions of shacks and informal unauthorized structures	level of compliance	No demolition has taken place so far
Water &Sanitation Services	To facilitate provision of water & Sanitation as per RDP standards.	Facilitate the implementation of approved projects in the municipal jurisdiction area	Participate during the implementation of water and sanitation projects	Attendance of meetings	55% & 73% of all households do not have access to water & sanitation resp.
Office Park	To feasibility study funding for a one-stop public service centre	Secure Land for the purpose	Develop business plan, determine the required size of land and assess availability and accessibility of land	Formal land identified and secured	quarterly reports
		Solicit funding for the implementation	Process securing of funding from financial institutions	Funding secured	quarterly reports
Total					



Town ship registration	None	Service Provider was not appointed	Appoint service provider to conduct the service
Town ship registration	Lay out finalized	Environmental Impact Assessment triggered by the Night soil pond in the area	Conduct EIA
Registration of Township	No progress	The site was packaged by the Mall Developer who failed to implement	Terminate the contract and continue with the land readiness on our own
Regitre all beneficiaries qualifying for quantum	Department of Human Settlement to do registration house to house	Progress delayed due to Elections	Introduce ward councillors to the service provider and continue with registration
NA	NA	NA	NA
NA	NA	NA	NA

<i>Annual Target</i>	<i>Actual Performance</i>	<i>Reasons for variance</i>	<i>Remedial Action(Where applicable)</i>
Approve new plans and routine building control	Approval of plans and building control		
Remove unauthorized squatter settlements	Removed 52 shacks	NA	NA
Actively participate in meetings	Actively participate in meetings and mobilize community members to support developmental projects	None	NA
<b>40,000.00</b>			



## Chapter 3: Municipal Local Economic Development Framework - KPA 3

### Economic Development (LED)

#### LED STRATEGY

The LED Strategy was completed and adopted in November 2010. In the strategy implementation plan, Institutional capacity development was prioritized as the focal area followed by Agricultural and tourism development hence the Department of Economic development, environmental affairs and tourism (DEDEAT) was engaged to assist on the implementation of the LED plan. The Department committed to assist with the training of the Municipal Project managers, appointing a Service Provider that will facilitate setting up of the Project Management office within the Municipality (PMO) funding of Small town regeneration project (development of Economic master plan) and further fund the implementation of the plan. The four Project Managers (LED Manager, Planning Manager, Environment and Social services Manager and 1 Tourism Officer) were trained on principle 2 Project Management. The Service Provider that was appointed to set up PMO visited the Municipality for introduction of the project and gather information. The funds for the Economic Master plan will be transferred immediately after the appointment of the Service Provider.

The LED section had incapacity challenges as it was having only three people working in it. After the completion of the LED strategy, the issue

of incapacity was addressed and four Officers (Three Tourism officers and One Agricultural development officer) have been appointed. The SMME intern was also appointed after the Department of local Government intervened by funding the SMME intern (LED Assistant) salary.

#### PROGRESS TOWARDS ACHIEVING THE LED KEY OBJECTIVES

##### A. Creation of market and public confidence

The Municipality has a duty to ensure provision of support to the SMMEs within the jurisdiction hence the Business conference was held in October 2010 to create a conducive platform for SMMEs to network and information sharing. Funders were invited throughout the country to present what they offer. The relations with SEDA were also strengthened and the business support centre at the cultural village was supported by extending the contract.

The allocation of Hawkers to the market stalls was done and as such 117 Hawkers allocated trading bays, whilst the registration and license renewal is continuous. The registration of Hawkers to the Municipal database has increased from 600 Hawkers in year 2009/2010 to 800 in year 2010/2011.

Three accommodation establishments (Makwande, Sinawe & Daphs B&B

attended the tourism Indaba assisted by the Municipality to market their establishments to the international trade show.

## B. Comparative and competitive advantages for industrial activities

Mbizana municipality is prerogative to be situated in the border of Eastern Cape and KwaZulu Natal. It is endowed with pristine beaches and appealing scenery. Mbizana coast is known for its internationally acclaimed biodiversity hotspot hence it's called Pondoland centre of endemism. The Wild coast sun resort with various amenities and activities contributes positively in the attraction of tourists to the destination. The coastal area makes Mbizana the best tourist destination, a must seen precinct to invest also.

The political and natural heritage also makes Mbizana unique from other tourist's destination Mbizana prides itself as the birthplace of the anti-apartheid leader Oliver regional Tambo and Mamu Winnie Madikizela Mandela. The implementation of the Heritage route which seek to exploit the intrinsic and underexploited political and Natural heritage commenced and is expected to be completed in December 2011.

## C. Enterprise Development

The Municipality facilitated training of the SMMEs through the business support centre (SEDA) at the cultural village and 90 SMMEs have been trained on Business skills and financial management.

Baleni Carpentry is one of the small enterprises supported by the Municipality and they have created 8 permanent jobs and 4 temporal jobs. The Department of Economic Development, environmental affairs and tourism also supported this project with an amount of R1 200 000.00 for its expansion in town. The execution of the project has commenced and the machinery was purchased.

The Municipality also supported Injule fishing project (Anchor project) by purchasing a cool room with an amount of R90 000.00 and the project is currently operating. 18 permanent job opportunities have been created by this project and they have been trained on financial skills and business management.

The Income Generating Projects (12 IGPs) were also funded at R10 000 per project to improve their projects.

## D. Support Social investment program

The Community Works Program (CWP) commenced and implemented by Lima in 8 wards (04, 05, 07, 08, 13, 18, 20, 22 & 23), 500 jobs have been created in year 2010/2011.

## E. Tourism

The Funds (R322 000.00) for the Tourism Development Framework were transferred to our coffers by Tina Sinako (Funder) for the execution of the project. The execution of the project commenced later than the proposed period and that resulted to the delays to the project hence the project plan was revised and budget was adjusted. The project is expected to be completed by the end of December 2011.

O. R. Tambo Heritage Route project is one of expanded public works program (EPWP) that was funded by National Department of Environment and Tourism for Construction of Khananda meeting place, Hiking trail, Mbhongweni replica of rondavel, the Heritage theme park, Ndlovu meeting place, hiking hut at ward 20 and training of laborers. Maintenance of Nkantolo Garden remembrance. R 2 460 767.00 has been spent in the year 2010/2011 and 200 jobs created for that particular year.

Mthamvuna lodge was funded by the National Department of Environment and tourism through EPWP for expansion of the lodge; Construction of dorms, reception area, upgrading of infrastructure (Sanitation and Electricity). 200 People have been employed in this project in year 2010/2011 only.

# 2.5 Waste management

## A. Waste management services delivery strategy and main role-players

Waste management has moved on from being purely based on a remove and dump system, to more sophisticated Integrated Waste Management Planning systems based on waste hierarchies. The role of the municipality in waste management includes the following:

- Waste prevention and minimization;
- Generation areas and waste stream analysis;
- Separation of waste;
- Waste collection, transfer and transport;
- Waste treatment;
- Reduce, re-use and recycling of waste; and
- End disposal of waste at landfill

### Storage of Waste

- Domestic refuse is stored and collected in 85 liter black plastic bags supplied by the Municipality.
- Businesses use any form of container for refuse storage i.e. black bags, boxes and open refuse storage areas.

### Collection and Transportation

- Refuse is collected as follows:
- Domestic: 1 x per week (5 days per week)
- Business: 6 x per week (6 days per week)
- Street sweeping: Daily - 6 days per week.
- Collections are curbside except for businesses within the town which have refuse storage areas.
- Litter facilities are provided in the form of 210 liter bins which are used by both businesses and pedestrians alike.

### Serviced Areas in town

- Domestic 292
- Small Business 151
- Large Business and Government 37

### Staff and Equipment Complement in Waste Management:

- 2 Supervisors
- 5 Drivers
- 14 Waste Collectors
- 17 Street sweepers
- 1 Mercedes Benz 2628 Axor Compactor - 19 cubic m - New vehicle
- 1 Nissan, High sided Cage Truck - 10 cubic m - New vehicle. Waste

### Management service role players include the following:

The District Municipality, NAFCOC, Hawkers Association, Government Departments, Environmental Health Practitioners, DEDEA

The municipality has budgeted for development of Integrated Waste Management Plan which has not yet been finalised and adopted.

### The main objective of Mbizana IWMP is to:

- Integrate waste management within our jurisdiction
- To identify and plan future waste management needs and requirements;
- Minimize waste management costs by optimizing the efficiency of the waste management system, in terms of usage of infrastructure, labor and equipment; and
- Minimize adverse social and environmental impacts related to waste management and thereby improve the quality of life for all citizens.

## C. ANNUAL PERFORMANCE AS PER KEY PERFORMANCE INDICATORS IN WASTE MANAGEMENT SERVICES

	<i>Indicator name</i>	<i>Total number of household/customer expected to benefit</i>	<i>Estimated backlogs (actual numbers)</i>	<i>Target set for the f. year under review</i>	<i>Number of HH/customer reached</i>	<i>Percentage of achievement during the year</i>
1	Percentage of households with access to refuse removal services	2500	1200	800	1500	60%

## D. MAJOR CHALLENGES IN WASTE MANAGEMENT SERVICES AND REMEDIAL ACTIONS

- No Public Drop off points, Garden refuse or General waste Transfer Stations to avoid illegal dumping.
- Hazardous and medical waste is mixed with commercial waste.
- Very limited waste separation and collection of recyclable materials is currently being undertaken by informal recyclers, who are not employed by the municipality.
- There is no proper infrastructure and facilities for recycling in the town and at the Landfill Site.
- There is no composting taking place.
- There is no technology or equipment such as bailers or shredders being used for the collection and packaging of recyclable materials.
- No records and data available for recycling within Mbizana Municipality.
- General lack of awareness.
- No permitted landfill site.
- Insufficient budget for provision of enough receptacles.
- Poor maintenance of vehicles.

## 2.8 Indigent policy implementation

### A. PREPARATION AND APPROVAL PROCESS OF THE INDIGENT POLICY

The indigent policy was developed and adopted in the 2010/2011 financial year.

### B. IMPLEMENTATION OF THE POLICY

The indigent policy is implemented; a process of identifying households that would benefit in the pilot project by the Department of Energy of provision of Alternative energy to 3000 indigent households has started.

## 3.3 Summary of LED Indicators

	<i>INDICATOR NAME</i>	<i>TARGET SET FOR THE YEAR</i>	<i>ACHIEVEMENT LEVEL DURING THE YEAR</i>	<i>ACHIEVEMENT PERCENTAGE DURING THE YEAR</i>
1	Tourism	<ul style="list-style-type: none"> <li>• Heritage route implementation (Heritage theme park construction, Trails &amp; Khananda meeting place)</li> <li>• 4 Product Owners supported</li> <li>• Tourism Safety Campaign</li> </ul>	R 10 000 000 R200 000 R40 000	100%
2	Agriculture	12 Cooperatives 1 Anchor	R210 000.00	100%
3	Enterprise Development	<ul style="list-style-type: none"> <li>• SMME training</li> <li>• Business Conference</li> <li>• Allocation of Hawker stalls</li> </ul>	R200 000	100%
4	LED strategy	LED Strategy was adopted	R200 000	100%





# Annual performance as per key performance indicators

## ECONOMIC DEVELOPMENT

Key Performance Area	Objective	Strategy	Key Performance Indicator
Safety & Security	To ensure road worthiness of public transport	Supply all the necessary traffic control material	Milestones achieved towards completion of traffic and vehicle testing centre.
Security fees	To keep our key points by employing security to these areas	Employ private security to safe guard all municipal premises 24 hours a day	Visibility of security personnel
Security equipment	To keep our municipal premises safe	Implement safety measures	Support the internal mechanisms-speed cameras
Park Home	To make sure that there is enough space for municipal employees	Buying of parkhomes	Office space in the office block not enough
Repairs and maintenance	To repair CCTV cameras	Implement safety measures in the main office/building	Existence of surveillance cameras and access controls
FBE	To make sure that the indigent individuals are subsidised by electricity	Facilitate updating of indigent register. Pay Eskom account monthly.	No of subsidy payments
Free Basic Services	To ensure that indigent individuals are subsidised.	Employ data collectors and subsidise refuse collection	Number of households subsidized
Cemeteries	To provide sustainable cemetery services to our communities	Provision of cemetery services	Improved cemetery management
Libraries	To improve the level of awareness. Canvass the importance of using i	Undertake awareness campaigns on general reading, poetry	Number of people using the library
Waste Management & Refuse removal, Grass cutting	To provide effective waste management and collection of refuse in our CBD area	Development of localised IWMP for waste management	Adopted IWMP
Waste Management & Refuse removal, Grass cutting	To provide effective waste management and collection of refuse in our CBD area	Reduce the number of illegal dumping sites	No dumping boards in place
Waste Management & Refuse removal, Grass cutting	To provide effective waste management and collection of refuse in our CBD area	Provision of regular and sustainable refuse collection for residents and businesses in urban area	Regular, sustainable refuse collection taking place
Stock pound	Enforce municipal bylaws to control stray animals	Facilitate the construction of pound structure	Completed Pound Structure
Economic development	To grow local economy by 10% by 2014	Facilitate review of LED strategy and implementation	Reviewed LED strategy
Tourism	To grow tourism	Implement local tourism plan	Implementable tourism plan
Tourism	To grow tourism	Support tourism product owners	Developed tourism destination and influx of tourists visiting the area.
Income Generating projects	To assist small home gardens	Fund IGPs	Notable performance of IGPs
Retail and Manufacturing	To revitalise the retail business	CBD revitalisation	Construct market stall
Enterprise development	To promote enterprise development	Support and develop SMMEs	Supported and Developed entrepreneurs and SMMEs
Mining	Ensure a well coordinated mining in Mbizana	Mapping of available resources in Mbizana LM	Mining map in place
LED projects (anchor projects)	Ensure availability of veg. In our areas	Supporting Anchor projects	Supported LED projects

<i>Baseline as per the year ending 2010/11</i>	<i>Annual Target for 2010/11</i>	<i>Actual performance</i>	<i>Reason for variance</i>	<i>Remedial action</i>
Current facility only providing a vehicle license renewal centre	Functional testing centre	Maintained the speed machine and eye tester	N/A	N/A
Private security in place	In house security personnel	Secure municipal assets	N/A	N/A
Speed truvolos available	Support traffic operations	Speed ,machine calibration	N/A	N/A
No office space available	Purchasing a park home	N/A	N/A	N/A
No cctv cameras	Repair cameras and the control computer		Experienced problems in procurement section	N/A
1218 on indigent data base	Subsidising the indigent	All stoves and gel delivered by the SP	N/A	N/A
Inappropriate indigent system in place	Subsidizing poor house holds to receive basic services	Employed data collectors in 31 wards	N/A	N/A
No proper maintenance of the cemetery	Provision of cemetery services	Is under tender processes and is delayed	N/A	N/A
Limited public awareness about and use of the library	Undertake awareness campaigns, research and general reading	Conducted literacy day	N/A	N/A
No plan	Develop IWMP	Service Provider appointed	N/A	N/A
No no dumping boards	Put no dumping boards in hotspots	Purchased warning boards and poles	N/A	N/A
Refuse collection is taking place	Sustainable refuse collection	Bought implements, plastic bags, uniforms	N/A	N/A
No animal pound	Facilitate construction of the pound	Pound completed (1st phase)	N/A	N/A
Non reviewed LED strategy	Review LED strategy	Paid the SP	N/A	N/A
No tourism framework	Develop tourism framework	Adoption of the Plan	Performance of SP is delaying the project	Sill on course
Low number of tourists in the area due to underdeveloped tourism	Promotion and marketing of the precinct as a choice tourist destination	Attended world cup exhibition tourism Indaba	N/A	N/A
Weak IGPs	Screen the IGP forms and process funding	Paid businesses for their products	N/A	N/A
109 Market stalls in place	Develop market place	Not done	Delayed by the designs	Construction in 2011/2012
Small support of SMMEs	Support SMMEs	40 SMMEs trained + business seminar	N/A	N/A
No mining map in place	Develop a mining map	Not done	Delayed by the procurement processes	To be done in 11/12
LED projects not supported	Support LED projects	Not done	Never went through evaluation	Deferred to 11/12



## Chapter 4: Municipal financial viability and management - KPA 4

### 1. Overview

The Budget and Treasury Office Budget takes overall responsibility for the financial health of the municipality. Activities that constitute financial management in the municipality include financial planning (budgeting) and budget management; revenue and expenditure management; asset management; supply chain management and financial reporting.

### 2. Analysis of the function

Mbizana Local Municipality is a rural Municipality with an extremely low revenue base. The total annual budget for 2010/2011 is R161 052 210 of which only 21% (34 041 461) of this amount is internally generated revenue.

It is of vital importance that the municipality has adequate sources of revenue, from both its own operations and intergovernmental transfers, to enable it to carry out its own functions.

- Licensing Station: The learners' testing centre has been operating since September 2009, and the driving testing centre is in the pipeline. Revenue from this income category has increased own generated revenue by 4% since inception. It is anticipated that the project will increase municipal revenue by 2011/12.
- Implementation of Municipal Rates Act: The municipal Valuation Roll was last conducted in 2011. The 1998 general valuation had some gaps and interim valuations could not improve the challenges. The project took long to commence because of certain municipal challenges, hence the Act was never implemented by July 2009. The objections period has lapsed and it is anticipated that by July 2010 the Act will be implemented.
- Identification of Investment Properties: The municipality has made sure that all land and buildings under its control are identified and that the fixed asset register is updated with this information and a complete listing of all land and buildings under its control. Investment Properties have been determined and extracted from this list. The municipality is currently not earning much from lease rental and it is anticipated that this income will be doubled when there is effective management of investment properties.
- Facilitate regular road markings: Mbizana Central Business Area is congested by vehicular traffic from 8H00 to 18H00 and yet no revenue is derived from traffic parking. The municipality is in the process of commencing this project by 2012/13 financial year.

### 3. Debtor billings: number and value of monthly billings

Collection rate was not so good in the year under review especially on rates. All of the newly rated rural properties were not servicing their accounts. It has become clear that the municipality will not be recovering these and they will be written off in the 2011/2012 financial year.

	<i>Rates</i>	<i>Electricity</i>	<i>Refuse removal</i>	<i>Interest</i>	<i>Vat</i>	<i>Total</i>
BILLED	8,109,624.69	5,548,321.23	765,247.37	214,143.59	711,111.84	15,348,448.72
RECEIVED	1,395,020.14	4,410,288.18	377,394.54	80,813.96	590,691.11	6,854,207.93
%	17%	79%	49%	38%		45%

### 4. Situation of arrears in property rates and service charges

<i>Income category</i>	<i>Total</i>	<i>30 Days</i>	<i>60 Days</i>	<i>90 Days</i>	<i>120 Days</i>	<i>150 Days</i>
Rates	4,108,864.75	452,558.00	209,111.67	208,596.87	203,278.63	3,035,319.58
Basic Electricity	417,640.01	36,320.55	22,526.01	20,304.37	18,982.03	319,507.05
Electricity	2,460,596.13	400,741.71	154,811.14	118,882.83	99,399.98	1,686,760.47
Kva Demand	8,386.04	-	-	-	-	8,386.04
Refuse	1,400,798.66	64,848.29	46,870.47	44,202.91	42,129.38	1,202,747.61
Interest	458,637.49	15,923.53	15,671.27	15,072.49	14,811.14	397,159.06
Leasehold Fees	337,528.92	320,977.16	16,551.76	-	-	-
Vat	664,608.27	70,266.72	32,804.93	26,820.37	23,868.23	510,848.02
Adjustment	3,089,157.66	-	-	-	-	3,089,157.66
Reciept	-191,422.23	-126,515.28	-1,750.00	-4,076.93	-17,522.67	-41,557.35
<b>Total</b>	<b>12,754,795.70</b>	<b>1,235,120.68</b>	<b>496,597.25</b>	<b>429,802.91</b>	<b>384,946.72</b>	<b>10,208,328.14</b>



# Mbizana Local Municipality

## Annual Financial Statements for the year ended 30 June 2011

<b>Executive committee</b>	D.D. Mnisi F. Siramza	W.A. Hlangabezo S. Magini	E.F. Matekana N. Giyama	N. Msokana L. Makholosa
<b>Mayor</b>	Hon. Cllr Z. Busuku			
<b>Councillors</b>	N. Kwelemtini	F. Mbuyelwa	L. Nojila	B. Matshoba
	V.T. Mbele	S. Godi	P. Booi	Mfingwana
	P.S. Ndakayi	S. Faku	Z. Mhlwazi	N. Madikizela
	N. Mbewu	L.G. Mcambalala	S.M. Thukwana	A. Maquthu
	R.T. Nkomo	H.P. Nonqane	T. Maphasa	W.M. Diya
	M. Xesibe	P.V. Ndovela	N. Hlebo	N.B. Mteki
	W.A. Hlangabezo	A.I. Guqaza	M.J. Dimane	B.A. Jalubane
	N. Sibutha	T. Faku	N. Mlomo	J.N. Madikizela
	H.M. Mpukwana	A.R. Ngubo	Z. Nohiya	Z.W. Mqokolwana
	N. Saeed,	P. Mfingwana	N.N. Mhlelembana	K. Ndzinya
	N. Stata	J.V.Sodiya	S. Ngonini	T.H. Kango
	P. Sramza	N. Mbadlanyana	M.J.Ndesi	I.M. Sabuka
	N. Madikizela	N. Magqab	M. Mahlaba	
<b>Grading of local authority</b>	Grade 3			
<b>Chief Finance Officer (CFO)</b>	N. Boti			
<b>Accounting Officer</b>	S. Thobela			
<b>Registered office</b>	51 Main Street, Bizana, 4800			
<b>Business address</b>	51 Main Street, Bizana, 4800			
<b>Postal address</b>	PO Box 12, Bizana, 4800			
<b>Bankers</b>	First National Bank			

The reports and statements set out below comprise the annual financial statements presented to the Eastern Cape:

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

## Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year ended 30 June 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The annual financial statements set out on page 6 to 54, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

**Mr S Thobela**  
*Municipal Manager*

# Mbizana Local Municipality

## Annual Financial Statements for the year ended 30 June 2011

### Figures in Rand

### Note(s)

### 2011

### 2010

#### Assets

#### Current Assets

Cash and cash equivalents	2	45	833	404	33	508	540
Consumer debtors	3	9	723	078	3	188	149
Other receivables from non-exchange transactions	4	3	907	028	3	907	028
Other current financial asset	5		210	030		210	030
Inventories	6		111	725		145	274
VAT receivable	7	4	293	724	8	120	118
Operating lease asset		1	735	129	1	679	400
		65	814	118	50	758	539

#### Non Current Assets

Property, plant and equipment	8	232	742	664	243	396	023
Intangible assets	9			-		184	844
Investment property	10	8	001	000	8	001	000
		240	743	664	251	581	867
Total Assets		306	557	782	302	340	406

#### Liabilities

#### Current Liabilities

Trade and other payables from exchange transactions	11	9	161	186	5	609	181
Consumer deposits	12		315	269		307	769
Unspent conditional grants and receipts	13	8	664	601	14	922	318
Provisions	14		841	390		755	425
Bank overdraft	2		534	059	4	572	486
		19	516	505	26	167	179

#### Non Current Liabilities

Current Liabilities		19	516	505	26	167	179
Total Liabilities		19	516	505	26	167	179
Assets		306	557	782	302	340	406
Liabilities		(19)	516	505)	(26)	167	179)
Net Assets		287	041	277	276	173	227
Net Assets							
Accumulated surplus		287	041	277	276	173	227

# Mbizana Local Municipality

## Annual Financial Statements for the year ended 30 June 2011

<i>Figures in Rand</i>	<i>Note(s)</i>	<i>2011</i>			<i>2010</i>			
<b>Revenue</b>								
Property rates	15	6	965	250	1	024	941	
Service charges	16	9	291	538	8	048	500	
Rental of facilities and equipment		1	037	192		915	659	
Interest received - investment		2	340	863	1	600	862	
Interest received			214	144		185	999	
Fines			166	660		209	710	
Licences and permits			951	653		933	285	
Government grants & subsidies	17	111	628	234	84	622	756	
Recoveries			11	306			-	
Other income	18	1	500	881		870	818	
Total Revenue			134	107	721	98	412	530
<b>Expenditure</b>								
Personnel	19	28	746	413	21	840	137	
Remuneration of councillors	20	11	687	254	10	253	295	
Depreciation and amortisation	21	32	814	767	32	642	102	
Impairment expense			90	669			-	
Repairs and maintenance		3	066	565	6	598	847	
Bulk purchases	22	9	491	394	6	117	725	
Grants and subsidies paid		12	430	793	1	898	860	
General Expenses	23	20	380	608	16	246	730	
Total Expenditure			118	708	463	95	597	696
<b>(Deficit) / surplus for the year</b>								
			15	399	258	2	814	834



# Mbizana Local Municipality

## Annual Financial Statements for the year ended 30 June 2011

### Figures in Rand

	Accumulated surplus			Total net assets		
Opening balance as previously reported	91	758	759	91	758	759
Adjustments						
Prior year adjustments	181	599	634	181	599	634
Balance at 01 July 2009 as restated	273	358	393	273	358	393
Changes in net assets						
Surplus for the year	2	814	834	2	814	834
Total changes	2	814	834	2	814	834
Balance at 01 July 2010	271	642	019	271	642	019
Changes in net assets						
Surplus for the year	15	399	258	15	399	258
Total changes	15	399	258	15	399	258
<b>Balance at 30 June 2011</b>	<b>287</b>	<b>041</b>	<b>277</b>	<b>287</b>	<b>041</b>	<b>277</b>
Note(s)						

### Figures in Rand

	Note(s)	2011			2010		
Cash flows from operating activities Receipts							
Sale of goods and services		125	017	786	97	849	988
Interest on investments		2	340	863	1	600	862
Interest received			214	144		185	998
		127	572	793	99	636	848
Payments							
Suppliers and Employee costs		(100)	188	228)	(66)	501	064)
Total receipts		127	572	793	99	636	848
Total payments		(100)	188	228)	(66)	501	064)
Undefined difference compared to the cash generated from operations note		11	045	958			-
Net cash flows from operating activities	24	38	430	523	33	135	784
Cash flows from investing activities							
Purchase of property, plant and equipment	8	(22)	067	232)	(26)	334	821)
Proceeds from sale of property, plant and equipment	8			-	9	049	601
Net cash flows from investing activities		(22)	067	232)	(17)	285	220)
Net increase/(decrease) in cash and cash equivalents		16	363	291	15	850	564
Cash and cash equivalents at the beginning of the year		28	936	054	13	085	490
Cash and cash equivalents at the end of the year	2	45	299	345	28	936	054

# Notes to the Annual Financial Statements for the year ended 30 June 2011

## 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. These accounting policies are consistent with the previous period.

### 1.1 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

#### *Fair value estimation*

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### *Impairment testing*

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable

cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

### 1.2 INVESTMENT PROPERTY

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

### 1.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not

differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	undefined
Buildings	30 years
Furniture and fixtures	7 - 10 years
Motor vehicles	3 - 7 years
Infrastructure	15 - 30 years
Community	15 - 50 years
Other property, plant and equipment	15 - 30 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

#### 1.4 SITE RESTORATION AND DISMANTLING COST

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new

carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

## 1.5 INTANGIBLE ASSETS

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.

The expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

## 1.6 FINANCIAL INSTRUMENTS CLASSIFICATION

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables

- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities at fair value through surplus or deficit - designated
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

### Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

### Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method. Impairment of financial assets.

At each end of the reporting period the municipality assesses all financial

assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

#### **Impairment losses are recognised in surplus or deficit.**

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale. Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### **Trade and other receivables**

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

#### **Trade and other payables**

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### **Bank overdraft and borrowings**

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs)

and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

## **1.7 LEASES**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis. The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis. Income for leases is disclosed under revenue in statement of financial performance.

## **1.8 INVENTORIES**

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.



## 1.9 IMPAIRMENT OF CASH-GENERATING ASSETS

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

### 1.10 EMPLOYEE BENEFITS

#### *Short-term employee benefits*

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### *Defined contribution plans*

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

#### *Defined benefit plans*

For defined benefit plans the cost of providing the benefits is determined using the projected credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end

of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested. To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

### 1.11 PROVISIONS AND CONTINGENCIES

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

#### **Decommissioning, restoration and similar liability**

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each

item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

## **1.12 REVENUE FROM EXCHANGE TRANSACTIONS**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

## **1.13 REVENUE FROM NON-EXCHANGE TRANSACTIONS**

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Rates, including collection charges and penalties interest**

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### **Fines**

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### 1.14 COMPARATIVE FIGURES

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

#### 1.15 UNAUTHORISED EXPENDITURE

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### 1.16 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

#### 1.17 IRREGULAR EXPENDITURE

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following

(effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

#### 1.18 PRESENTATION OF CURRENCY

These annual financial statements are presented in South African Rand.

#### 1.19 OFFSETTING

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

#### 1.20 CONDITIONAL GRANTS AND RECEIPTS

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

## 2. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2 022	2 000
Short-term deposits	44 276 084	31 638 790
Other bank balances	1 555 298	1 867 750
Bank overdraft	(534 059)	(4 572 486)
	<u>45 299 345</u>	<u>28 936 054</u>
Current assets	45 833 404	33 508 540
Current liabilities	(534 059)	(4 572 486)
	<u>45 299 345</u>	<u>28 936 054</u>

The municipality had the following bank accounts:

Account number	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
51704922107	5 649 484	1 348 863	1 160 425	(534 059)	(2 614 935)	12 338 178
<b>Total</b>	<b>7 452 906</b>	<b>3 216 612</b>	<b>2 689 717</b>	<b>1 021 239</b>	<b>(747 186)</b>	<b>9 641 567</b>

## 3. Consumer debtors

Gross balances

Revenue from non-exchange transactions

Rates	4 108 865	519 813
Revenue from exchange transactions		
Electricity, Refuse and Other	8 645 931	6 517 010
	<u>12 754 796</u>	<u>7 036 823</u>

Less: Provision for debt impairment

Rates and Electricity, Refuse and other	(3 031 718)	(3 848 674)
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Net balance

Rates	4 108 865	519 813
Electricity	8 645 931	6 517 010
Impairment	(3 031 718)	(3 848 674)
	<u>9 723 078</u>	<u>3 188 149</u>

Summary of debtors according to Service types

Rates		
Current (0 -30 days)	452 558	71 062
31 - 60 days	209 112	62 395
61 - 90 days	208 597	65 193
91 - 120 days	3 238 598	321 163
	<u>4 108 865</u>	<u>519 813</u>

Electricity, Refuse and other

Current (0 -30 days)	782 563	404 934
31 - 60 days	287 486	406 129
61 - 90 days	221 206	206 454
91 - 120 days	181 668	190 251
121 - 365 days	717 3008	530 9242
	<u>864 5931</u>	<u>651 7010</u>

Reconciliation of debt impairment provision

Balance at beginning of the year	(384 8674)	(964 2213)
Reversal of provision	816 956	579 3539
	<u>(303 1718)</u>	<u>(384 8674)</u>

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

In determining the recoverability of consumer debtor the municipality considers any change in the credit quality of the consumer debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the consumer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

## 4. Other receivables from non-exchange transactions

Pensions Councillors	32805	32805
Other debtors	3874223	3874223
	3907028	3907028

Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

## 5. Other current financial asset

Transfer of properties		
Other current financial asset	210 030	210 030

## 6. Inventories

Consumables stores	111 725	145 274
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## 7. VAT receivable

VAT	4 293 724	8 120 118
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## 8. Property, plant and equipment

	<i>Cost Accumulated</i>	<i>2011 Carrying value</i>	<i>Impairment</i>	<i>Cost Accumulated</i>	<i>2010 Carrying value</i>	<i>Impairment</i>
Land	32 245 690	-	32 245 690	32 245 690	-	32 245 690
Buildings	48 314 713	(7 062 401)	41 252 312	44 487 613	(3 715 694)	40 771 919
Furniture and fixtures	5 564 127	(3 055 167)	2 508 960	4 709 070	(1 858 817)	2 850 253
Motor vehicles	3 976 313	(1 437 317)	2 538 996	3 976 313	(915 489)	3 060 824
Infrastructure	211 464 511	(57 613 699)	153 850 812	194 295 176	(29 966 877)	164 328 299
Community	155 873	(23 322)	132 551	155 873	(16 835)	139 038
Other property, plant And equipment	215 740	(2 397)	213 343	-	-	-
<b>Total</b>	<b>301 936 967</b>	<b>(69 194 303)</b>	<b>232 742 664</b>	<b>279 869 735</b>	<b>(36 473 712)</b>	<b>243 396 023</b>

	<i>Opening balance</i>	<i>Additions</i>	<i>Depreciation</i>	<i>Impairment loss</i>	<i>Total</i>
Reconciliation of property, plant and equipment - 2011					
Land	32 245 690	-	-	-	32 245 690
Buildings	40 771 919	3 827 100	(3 256 038)	(90 669)	41 252 312
Furniture and fixtures	2 850 253	855 057	(1 196 350)	-	2 508 960
Motor vehicles	3 060 824	-	(521 828)	-	2 538 996
Infrastructure	164 328 299	17 169 335	(27 646 822)	-	153 850 812
Community	139 038	-	(6 487)	-	132 551
Housing	-	215 740	(2 397)	-	213 343
	243 396 023	22 067 232	(32 629 922)	(90 669)	232 742 664



Reconciliation of property, plant and equipment - 2010

	<i>Opening balance</i>	<i>Additions</i>	<i>Disposals</i>	<i>Depreciation</i>	<i>Total</i>
Land	32 245 690	-	-	-	32 245 690
Buildings	41 300 849	6 846 909	(4 118 967)	(3 256 872)	40 771 919
Furniture and fixtures	3 670 992	403 832	(113 580)	(1 110 991)	2 850 253
Motor vehicles	3 581 473	1 160	-	(521 809)	3 060 824
Infrastructure	177 627 445	19 033 047	(4 817 054)	(27 515 139)	164 328 299
Community	95 400	49 873	-	(6 235)	139 038
	258 521 849	26 334 821	(9 049 601)	(32 411 046)	243 396 023

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

## 9. Intangible assets

	<i>2011</i>			<i>2010</i>		
	<i>Cost</i>	<i>Accumulated amortisation and accumulated impairment</i>	<i>Carrying value</i>	<i>Cost</i>	<i>Accumulated amortisation and accumulated impairment</i>	<i>Carrying value</i>
Computer software, other	462 111	(462 111)	-	462 111	(277 267)	184 844

Intangible assets Reconciliation of intangible assets - 2011	<i>Opening balance</i>	<i>Amortisation</i>	<i>Total</i>
Computer software, other	184 844	(184 844)	-

Reconciliation of intangible assets - 2010

Computer software, other	415 900	(231 056)	184 844
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## 10. Investment property

	<i>2011</i>			<i>2010</i>		
	<i>Cost</i>	<i>Accumulated depreciation and accumulated impairment</i>	<i>Carrying value</i>	<i>Cost</i>	<i>Accumulated depreciation and accumulated impairment</i>	<i>Carrying value</i>
Investment property	8 001 000	-	8 001 000	8 001 000	-	8 001 000

Reconciliation of investment property - 2011	<i>Opening balance</i>	<i>Total</i>
Investment property	8 001 000	8 001 000

Reconciliation of investment property - 2011	<i>Opening balance</i>	<i>Total</i>
Investment property	8 001 000	8 001 000

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

Revaluations were performed by an independent valuer, Mimosa Properties. Mimosa Properties are not connected to the municipality and have 8 years of experience in location and category of the investment property being valued.

Amounts recognised in surplus and deficit for the year.

Investment property located in (a foreign country: specify) is governed by that country's exchange controls and therefore the rental income and proceeds from any sale of that investment property are not available to the municipality.

## 11. Trade and other payables from exchange transactions

Trade payables	1 196 008	622 428
Other payables	338 7943	3444529
Provision for leave	2123991	1542224
Retention	2453244	-
	9161186	5609181

## 12. Consumer deposits

Electricity	315 269	307 796
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Consumer deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, Council can utilise the deposit as payment for the outstanding account.

Management of the municipality is of the opinion that the carrying value of consumer deposits approximate their fair values.

## 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	5 773 321	13 488 514
Municipal Systems Improvement Grant	205 826	494 356
Extension 2 Residents	33 802	33 802
Pilot Housing Fund	391 620	78 338
Financial Management Grant	-	391 880
Fraud Prevention Plan	160 280	160 280
LED Grant	645 520	-
Municipal Support Grant	275 148	275 148
IEC Grant	1 179 084	-
	8 664 601	14 922 318

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised. See note for reconciliation of grants from National/Provincial Government. These amounts are invested in a ring-fenced investment until utilised.

## 14. Provisions

Reconciliation of provisions - 2011

	<i>Opening Balance</i>	<i>Additions</i>	<i>Total</i>
Environmental rehabilitation	755 425	85 965	841 390

Reconciliation of provisions - 2010

	<i>Opening Balance</i>	<i>Additions</i>	<i>Total</i>
Environmental rehabilitation	-	755 425	755 425
Environmental rehabilitation provision			

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

## 15. Property rates received

Residential	6 965 250	1 024 941
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## 16. Service charges

Service charges	186 266	198 790
Sale of electricity	8 340 025	7 178 653
Refuse removal	765 247	671 057
	9 291 538	8 048 500

## 17. Government grants and subsidies

Equitable share	75 758 278	62 101 416
Municipal Infrastructure Grant	22 197 192	19 526 475
Municipal Systems Improvement Grant	1 038 530	641 860
Financial Management Grant	1 591 880	861 620
Provincial Grant	-	239 685
IDP Grant	445 428	110 000
LED Grant	476 010	200 000
IEC Grant	120 916	941 700
Integrated Electrification Grant	10 000 000	-
	111 628 234	84 622 756

Municipal Infrastructure Grant		
Balance unspent at beginning of year	13 488 514	-
Current-year receipts	14 482 000	33 014 989
Conditions met - transferred to revenue	(22 197 193)	(19 526 475)
	5 773 321	13 488 514

Conditions still to be met - remain liabilities (see note 13)

Municipal Systems Improvement Grant		
Balance unspent at beginning of year	494 356	636 216
Current-year receipts	750 000	500 000
Conditions met - transferred to revenue	(1 038 530)	(641 860)
	205 826	494 356

Conditions still to be met - remain liabilities (see note 13)

Extension 2 Residential		
Balance unspent at beginning of year	33 802	33 802
Conditions met - transferred to revenue	-	-
	33 802	33 802

Conditions still to be met - remain liabilities (see note 13)

Pilot Housing Fund		
Balance unspent at beginning of year	78 338	78 338
Current-year receipts	313 282	-
Conditions met - transferred to revenue	-	-
	391 620	78 338

Conditions still to be met - remain liabilities (see note 13)

Financial Management Grant		
Balance unspent at beginning of year	391 880	453 500
Current-year receipts	1 200 000	800 000
Conditions met - transferred to revenue	(1 591 880)	(861 620)
	-	391 880

Conditions still to be met - remain liabilities (see note 13)

## Fraud Prevention Plan

Balance unspent at beginning of year	160 280	-
Current-year receipts	-	400 000
Conditions met - transferred to revenue	-	(239 720)
	160 280	160 280

Conditions still to be met - remain liabilities (see note 13)

## LED Grant

Current-year receipts	1 121 530	-
Conditions met - transferred to revenue	(476 010)	-
	645 520	-

Conditions still to be met - remain liabilities (see note 13)

## Municipal support Grant

Balance unspent at beginning of year	275 148	275 148
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Conditions still to be met - remain liabilities (see note 13)

## IEC Grant

Current-year receipts	1 300 000	-
Conditions met - transferred to revenue	(120 916)	-
	1 179 084	-

Conditions still to be met - remain liabilities (see note 13).

## 18. Other income

Other income	1 500 881	870 818
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## 19. Employee related costs

Basic	22 857 709	16 709 185
Bonus	1 093 536	828 263
Medical aid - company contributions	983 048	963 135
UIF	166 582	118 391
WCA	488 986	136 855
SDL	198 204	142 454
Other payroll levies	367 704	171 218
Leave pay provision charge	190 000	449 592
Post-employment benefits - Pension - Defined contribution plan	1 548 977	1 214 481
Travel, motor car, accommodation, subsistence and other allowances	363 647	589 322
Overtime payments	150 609	118 756
Housing benefits and allowances	225 213	320 285
Allowances	105 708	74 024
Bargaining Council	6 490	4 176
	28 746 413	21 840 137

## Remuneration of municipal manager

Annual Remuneration	854 225	467 635
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Contributions to UIF, Medical and Pension Funds	-	79 091
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Performance and other bonuses	-	28 213
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Travel, motor vehicle, accommodation subsistence and other allowances	14 400	195 740
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	868 625	770 679
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## Remuneration of chief finance officer

Annual Remuneration	696 977	393 614
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Bonuses	-	31 536
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Contributions to UIF, Medical and Pension Funds	-	2 995
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Travel, motor vehicle, accommodation subsistence and other allowances	-	217 537
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Other	9 600	-
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	706 577	645 682
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## Director-Planning and Infrastructure

Annual Remuneration	700 194	375 027
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Bonuses	-	29 848
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Travel, motor vehicle, accommodation subsistence and other allowances	9 600	243 191
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	709 794	648 066
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## Director-Corporate Services

Annual Remuneration	690 020	403 891
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Bonuses	9 600	30 339
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Contributions to UIF, Medical and Pension Funds	-	27 145
---	---	--------

Travel, motor vehicle, accommodation subsistence and other allowances	-	179 202
---	---	---------

	699 620	640 577
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## Director-Community Services

Annual Remuneration	694 817	382 997
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Contributions to UIF, Medical and Pension Funds	-	29 769
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Travel, motor vehicle, accommodation subsistence and other allowances	9 600	221 747
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	704 417	634 513
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## 20. Remuneration of councillors

Mayor	433 366	420 448
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Mayoral Committee Members	1 526 273	1 705 275
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Speaker	198 964	182 988
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Councillors	9 528 651	7 944 584
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	11 687 254	10 253 295
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## In-kind benefits

The Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.  
The Mayor has use of a Council owned vehicle for official duties.  
The Mayor has one full-time bodyguard .

## 21. Depreciation and amortisation

Property, plant and equipment	32 629 923	32 411 046
Intangible assets	184 844	231 056
	<u>32 814 767</u>	<u>32 642 102</u>

## 22. Bulk purchases

Electricity	9 491 394	6 117 725
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Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resell to the consumers. Electricity is purchased from Eskom.

## 23. General expenses

Advertising	225 116	188 087
Annual Report	133 860	149 934
Audit Committee Fees	55 953	47 092
Auditors remuneration	2 145 380	2 076 447
Bank charges	146 350	123 535
Books	195 175	88 974
Cemetery	146 850	87 308
Cleaning	48 173	49 477
Community Involvement	1 358 232	158 442
Consulting and professional fees	2 444 926	259 281
Entertainment	485 691	500 180
Environmental Projects	645 623	260 282
Free Basic Services	836 764	632 815
Fuel and oil	760 310	463 091
HIV/AIDS Programmes	256 174	427 309
IT expenses	432 321	521 331
Institutional Support	1 121 622	1 670 264
Insurance	342 413	382 244
Legal Fees	559 608	695 318
Licencing Fees	34 415	33 448
Local Economic Development Projects	251 586	711 669
Mayor's Special Programmes	378 867	423 708
Membership Fees	9 948	16 706
Other Expenses	1 744 931	677 355
Printing and stationery	354 526	278 434
Protective clothing	256 041	133 384
Public Participation	41 185	361 383
Rental of Equipment	-	18 809
Security (Guarding of municipal property)	440 856	409 673
Stocks and Material	42 613	87 432
Telephone and fax	610 823	181 430
Tourism development	170 956	93 051
Travelling and Accommodation	2 465 998	2 722 017
Ward Committee Fees	1 237 322	1 316 820
	<u>20 380 608</u>	<u>16 246 730</u>



## 24. Cash generated from operations

Surplus	15 399 258	2 814 834
Adjustments for:		
Depreciation and amortisation	32 814 767	32 642 102
Impairment deficit	90 669	-
Movements in operating lease assets and accruals	(55 729)	(1 679 400)
Movements in provisions	85 965	755 425
Increase in staff leave	581 767	449 592
Provision for doubtful debts	(816 956)	(5 793 539)
Prior period adjustment	(4 531 207)	(2 350 459)
Changes in working capital:		
Inventories	33 549	35 686
Other receivables from non-exchange transactions	-	(1 884 875)
Consumer debtors	(5 717 973)	3 109 194
Trade and other payables from exchange transactions	2 970 236	2 697 206
VAT	3 826 394	(8 120 118)
Unspent conditional grants and receipts	(6 257 717)	10 451 136
Consumer deposits	7 500	9 000
	<u>38 430 523</u>	<u>33 135 784</u>

## 25. Commitments

Authorised capital expenditure

Already contracted for but not provided for

Property, plant and equipment	30 736 754	-
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessor (income) Minimum lease payments due\

- within one year	473 848	473 848
- in second to fifth year inclusive	2 306 031	2 135 214
- later than five years	3 726 638	4 371 303
	<u>6 506 517</u>	<u>6 980 365</u>

Certain of the municipality's property is held to generate rental income. Rental of properties is expected to increase on 8% per year on an ongoing basis. Lease agreements are non-cancellable and have terms from 12 to 20 years. There are no contingent rents receivable.

## 26. Additional disclosure in terms of Municipal Finance Management Act

### Contributions to organised local government Audit fees

Current year fee	2 145 380	2 076 447
Amount paid - current year	(2 145 380)	(2 076 447)
	-	-
PAYE and UIF		
Current year fee	5 232 012	4 330 540
Amount paid - current year	(5 232 012)	(4 330 540)
	-	-
Pension and Medical Aid Deductions		
Current year fee	3 233 804	3 026 072
Amount paid - current year	(3 233 804)	(3 026 072)
	-	-
VAT		
VAT receivable	4 293 724	8 120 118
VAT output payables and VAT input receivables are shown in note .		
Councillors' arrear consumer accounts		
No Councillors' accounts were in arrears as at 30 June 2011.		

## 27. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

	<i>Loans and receivables</i>	<i>Held to maturity investments</i>	<i>Total</i>
Consumer debtors	9 832	263	9 832 263
Other receivables from non-exchange transactions	3 797	843	3 797 843
Other bank balances	1 555	298	1 555 298
Short term deposits		- 44 276 084	44 276 084
Cash on hand	2	022	2 022
Other current financial asset	210	030	210 030
	15 397 456	44 276 084	59 673 540
2010			
	<i>Loans and receivables</i>	<i>Held to maturity investments</i>	<i>Total</i>
Consumer debtors	3 297	334	3 297 334
Other receivables from non-exchange transactions	3 797	843	3 797 843
Other bank balances	1 867	750	1 867 750
Short term deposits		- 31 638 790	31 638 790
Cash on hand	2	000	2 000
Other current financial asset	210	030	210 030
	9 174 957	31 638 790	40 813 747

## 28. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	<i>Financial liabilities at amortised cost</i>	<i>Total</i>
Trade and other payables	8 180 544	8 180 544
Bank overdraft	534 059	534 059
Consumer deposits	315 269	315 269
	9 029 872	9 029 872

2010

	<i>Financial liabilities at amortised cost</i>	<i>Total</i>
Trade and other payables	5 609 181	5 609 181
Bank overdraft	4 572 486	4 572 486
Consumer deposits	307 769	307 769
	10 489 436	10 489 436

## 29. Comparative figures

Certain comparative figures have been reclassified.

## 30. Employee benefit obligations Defined contribution plan

Included in defined contribution plan information above, is the following plans which are a Multi-Employer Funds and are Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plans as a defined benefit plans. The municipality accounted for these plans as a defined contribution plans:

Councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.
- (iv)

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

### DEFINED BENEFIT SCHEMES

#### *Municipal Councillors Pension Fund:*

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the fund had a funding ratio of 102.56%. (30 June 2006 106.5%). The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

#### *South African Municipal Workers Union National Provident Fund:*

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2005.

The statutory valuation performed as at 30 June 2005 revealed that the fund had a funding ratio of 100.0% (30 June 2002: 100,0%). The contribution rate paid by the members (not less than 5,00%) and Council (not less than 12,00%) is sufficient to fund the benefits accruing from the fund in the future.

#### *Municipal Employees Pension Fund*

No details could be provided for the fund and of any valuation performed.

## 31. Rental of facilities and equipment

### Premises

Premises	939 101	600 563
Venue hire	84 620	29 854
Billboards and advertising	13 471	22 419
Other	-	262 823
	1 037 192	915 659
Premises	1 037 192	915 659
Garages and parking	-	-
Facilities and equipment	-	-

## 32. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

GRAP 17 : PROPERTY, PLANT AND EQUIPMENT

GRAP 16 : INVESTMENT PROPERTY

GRAP 102 : INTANGIBLE ASSETS

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2010 is as follows:

1. Accumulated surplus / (deficit)	
Opening balance - as previously reported	(121 436 443)
Change in policy of Property, plant and equipment	(152 598 288)
Closing balance (carried forward to note 33)	(274 034 731)
2. Property, plant and equipment	
Opening balance - as previously reported	98 508 880
Change in policy of Property, plant and equipment	144 863 493
Closing balance (carried forward to note 33)	243 372 373
3. Intangible Assets	
Opening balance - as previously reported	451 038
Change in policy	(266 194)
Closing balance at the end of the year - 30 June 2010	184 844
4. Investment Property	
Opening balance - as previously reported	4
Change in policy of Property, plant and equipment	8 000 996
Closing balance at the end of the year - 30 June 2010	8 001 000
5. Depreciation	
Opening balance - as previously reported	8 103 700
Change in policy	24 538 402
Closing balance at the end of the year - 30 June 2010	32 642 102

### 33. Prior period errors

The correction of the error(s) results in adjustments as follows:

1.	Accumulated surplus / (deficit)	
	Opening balance - brought forward from note 32	(274 034 731)
	Debtors incorrectly accounted for in the prior period	(222 744)
	Rates on Municipal Properties	18 548
	Rates incorrectly levied during the year	116 418
	Debtors incorrectly accounted for in the prior period	(28 677)
	Straight Line of Leases	(1 679 400)
	Journal on the bank reconciliation	(863 352)
	Creditor corrections	(541 585)
	VAT correction	1 062 296
	Closing balance at the end of the year - 30 June 2010	(276 173 227)
2.	Cash and cash equivalents	
	Opening balance - as previously reported	34 881 011
	Corrections	(3 124 293)
	Closing balance at the end of the year - 30 June 2010	31 756 718
3.	Trade and other receivables from exchange transactions	
	Opening balance - as previously reported	3 166 697
	Corrections	130 637
	Closing balance at the end of the year - 30 June 2010	3 297 334
4.	Other receivables from non-exchange transactions	
	Opening balance - as previously reported	1 242 176
	Corrections	(264 993)
	Closing balance at the end of the year - 30 June 2010	977 183
5.	Operating Lease Receipts	
	Opening balance - as previously reported -	
	Corrections	1 679 400
	Closing balance at the end of the year - 30 June 2010	1 679 400
6.	VAT receivable	
	Opening balance - as previously reported	9 182 415
	Corrections	(1 062 296)
	Closing balance at the end of the year - 30 June 2010	8 120 119
7.	Property, plant and equipment	
	Opening balance - brought forward from note 32	243 372 373
	Corrections	23 650
	Closing balance at the end of the year - 30 June 2010	243 396 023
8.	Trade and other payables from exchange transactions	
	Opening balance - as previously reported	(10 251 083)
	Corrections	4 641 902
	Closing balance at the end of the year - 30 June 2010	(5 609 181)
9.	Current portion of unspent conditional grants and receipts	
	Opening balance - as previously reported	(15 036 807)
	Corrections	114 490
	Closing balance at the end of the year - 30 June 2010	(14 922 317)
10.	Property rates	
	Opening balance - as previously reported	(937 199)
	Corrections	(87 742)
	Closing balance at the end of the year - 30 June 2010	(1 024 941)
11.	Rental of facilities and equipment	
	Opening balance - as previously reported	(823 981)
	Corrections	(91 678)
	Closing balance at the end of the year - 30 June 2010	(915 659)
12.	Bulk purchases	
	Opening balance - as previously reported	6 892 086
	Corrections	(774 361)
	Closing balance at the end of the year - 30 June 2010	6 117 725
13.	Grants and subsidies paid	
	Opening balance - as previously reported -	
	Corrections	1 898 860
	Closing balance at the end of the year - 30 June 2010	1 898 860
14.	General expenses	
	Opening balance - as previously reported	18 232 711
	Corrections	(1 985 981)
	Closing balance at the end of the year - 30 June 2010	16 246 730

## 34. Risk management

### CAPITAL RISK MANAGEMENT

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in cash and cash equivalents disclosed in note 2, and equity as disclosed in the statement of financial position

In order to maintain or adjust the capital structure, the municipality may adjust the amount of dividends paid to member, return capital to member, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2011 and 2010 respectively were as follows:

Less: Cash and cash equivalents	2	45299345	28936054
		(45299345)	(28936054)
Net debt Total equity		287 041 277	287 041 277
Total capital		241 741 932	247 237 173

### FINANCIAL RISK MANAGEMENT

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

#### LIQUIDITY RISK

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### INTEREST RATE RISK

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

#### CREDIT RISK

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

## 35. Going concern

We draw attention to the fact that at 30 June 2011, the municipality had accumulated deficits of R 287 041 277 and that the municipality's total liabilities exceed its assets by R 287 041 277.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 36. Events after the reporting date

No events having financial implications and requiring disclosure, occurred subsequent to 30 June 2011.



## 37. New standards and interpretations

### 37.1 STANDARDS AND INTERPRETATIONS ISSUED, BUT NOT YET EFFECTIVE

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

#### GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 103: Heritage Assets

Grp 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset to be recognised as an asset only if:

- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grp 103 states that a heritage asset to be measured at its cost unless it is acquired through a non-exchange transaction which to then be measured

at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and to apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grp 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value to reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase to be credited directly to a revaluation surplus. However, the increase to be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease to be recognised in surplus or deficit. However, the decrease to be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grp 103 states that a heritage asset to not be depreciated but an entity to assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, to be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting to be its revalued amount at the date of transfer. The entity to treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount to be recognised in surplus or deficit.

The carrying amount of a heritage asset to be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset to be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised. The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### **GRAP 21: Impairment of non-cash-generating assets**

Non-cash-generating assets are assets other than cash-generating assets. When the carrying amount of a non-cash-generating asset exceeds its

recoverable service amount, it is impaired.

A municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

A municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance. The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements. CRAP 26: Impairment of cash-generating assets.

Cash-generating assets are those assets held by a municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, a municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future

price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

A municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, a municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when a municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by a municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which a municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined

without regard to the identity of the municipality that employs the employees concerned;

- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which a municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle a municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, a municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where a municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

A municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once a municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or

- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

A municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

A municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

## 38. Contingencies

There are currently 4 cases against the municipality to the amount of R400 000. These cases will only be finalised in the next financial year.

### Contingent assets

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 41, civil proceedings have commenced against the employees concerned to recover an amount of R-. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

## 39. Irregular expenditure

Add: Irregular Expenditure - current year

936 778

-

### Details of irregular expenditure – current year

Disciplinary steps taken/criminal proceedings.

Deviation not authorised by the municipal manager.

Currently none - subject to possible future investigation.

### Deviations approved by the municipal manager

Currently none - subject to possible future investigation 33 490

### Money stolen

Disciplinary actions in progress

779 38

936 778

## 40. Electricity distribution losses

Units purchased during the year

16 828 622

Units sold during the year

(10 041 549)

Difference

6 787 073

## 41. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - PAYE Penalties

547 493

-

## 42. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

## 4.7 The Audit committee functionality

The Audit Committee for Mbizana Municipality was not functional throughout the financial year, it was dissolved after the audit committee meeting held on the 21st February 2011. In light of the above explanation no recommendations were made by the audit committee.

## 4.9 Anti corruption strategy

The Anti-corruption strategy has been developed and is in draft stage; however, it will be taken to council for adoption during the current financial year ending 30 June 2012.

There was no awareness workshop conducted during the year under review.

No mechanisms were developed in respect of fraud cases reporting.







## Chapter 5: Good governance and public participation - KPA 5

### 5.1 Overview of the Executive and Council

The Council of Mbizana Local municipality during 2010/11 financial year functioned with 50 councillors before local government elections and 61 after elections the council was fully functional and no resignations or deaths were reported in this period.

The Council successfully carried out its legislative functions during this period which included:

- i. the passing of by-laws and formulation of policies;
- ii. the oversight of the executive and administration;
- iii. the approval and amendment of budgets;
- iv. the imposition and amendment of rates and other taxes, levies and duties;
- v. the raising of loans;
- vi. the approval or amendment of the Municipality's Integrated Development Plan;
- vii. the setting of tariff charges;
- viii. the entering into Municipal Service Partnerships; and
- ix. the appointment of the Municipal Manager.

During the year under review the Municipality had an Executive Committee with ten members including the Mayor this was the case before the new council came in on the 19<sup>th</sup> of May 2011. Each Member was allocated to head a portfolio committee or standing committee that will in turn report to the Executive committee. The Executive Committee had six portfolio committees as listed below:

1. Technical and Infrastructure: Cllr T. Mlomo
2. Good Governance SPU and Public Participation: Cllr. D.D. Mnisi
3. Budget and Treasury: Cllr. N.N. Mhlelembana
4. Local Economic Development: Cllr.T. D. Mafumbatha
5. Transport and Safety and Security: Cllr M. Mzoko
6. Development Planning: Cllr. N.E. Cengimbo
7. Community and Social: Cllr Z. Busuku
8. Corporate Services: Cllr. N. Msokana

After the 18 May 2011 the Executive committee had 9 members including the Mayor and the committees decreased from 8 to 6 as follows:

Community Development: Cllr. L. Makholosa  
 Budget and Treasury: Cllr. F. Siramza  
 Corporate Services: Cllr. W. Hlangabezo  
 Good Governance and Public Participation: Cllr. S. Magini  
 Local Economic Development and Agrigarian Reform: Cllr. E.F. Matekana  
 Planning and Infrastructure: Cllr. D.D. Mnisi

The Executive Committee and the Mayor are responsible for overall management, coordination, monitoring of performance of administration and drafting of policies and by-laws

## 5.2 Public Participation and Consultation

The Municipality as indicated is very rural and vast with low population density of 99.7 square kilometer. The implications for this is distance travelled to central points and cost for travel for consultative meetings. The Municipality decided to hold meetings in central points in each ward. During September/October, the Mayor held Mayoral Imbizos to assess if the Municipality attended to the issues that were raised by communities in the IDP and if not what has been done? The meetings were relatively successful as the attendance was satisfactory. The product of the Imbizos finds itself to the council and to the IDP reviewal process in cases where communities changed priorities.

The Mayoral Imbizos were also used as public hearings for people to talk about their government. Issues that were raised in the Imbizos were not only the competency of the local state; in fact most of them were about Provincial government responsibility. Our IDP had a list of issues raised by communities in the Mayoral Imbizos and IDP road shows.

In terms of customer satisfaction the Municipality has a customer care/service book where in customers either make suggestions on how to improve our services or complain our service. In this regard we have been able to attend to issues raised by our customers.

Our customer service is also linked to the Presidential Hotline. We received 99 complaints from the Presidential Hotline; however, many of the complaints were the competency of Provincial Government and were made referrals in those cases. Out of the 99 cases only 40 were complaints directly a responsibility of the local Municipality. Twenty of the forty complaints have been resolved and the other twenty has not yet been resolved due to budgetary constraints.

## 5.3 Ward committees' Establishment and Functionality

The Municipality had 25 wards before the 18<sup>th</sup> May 2011 Local Government Elections. The 25 wards had 10 ward committees each with a total of 250 ward committee members. The 250 ward committees were all inducted and trained in ward governance.

Ward committee meetings chaired by the ward councilor were seating on a monthly basis. A proof of meetings for the payment of seating allowance was submitted to the Municipality on a monthly basis. The office of the Speaker processed issues that came from the ward committees to ensure that they are addressed in Standing Committees or Executive Committee or Council as a case might be. Some of the issues raised by communities in the ward committees were added in the IDP as critical issues that need urgent attention.

The monthly reports of ward committees form a proof of activities that ward committees have been engaged in. In terms of feedback ward councilors were responsible for giving feedback to the ward committees on communities.

## 5.4 Community Development Workers' Performance Monitoring

The Municipality has designated an official to work with Community Development Workers. The CDWs were not submitting monthly reports but submitted quarterly reports to the Municipality.

Community Development Workers have done well over the period under review. On a quarterly basis CDWs visited an average of 1800 homes for four quarters and identified and referred cases to relevant departments at an average of 880 cases that were identified. They continue make follow ups as well.

The CDWs have been particularly active on Municipal programs like Mayoral Imbizos, IDP road shows and IDP represe.

## 5.5 Communication strategy

The Communications Unit has a fully developed Communication Strategy which was adopted by council, and so far many of the key strategic objectives in the strategy have been implemented. The most important aspect for the year under review is that E-Communication has become part of the Communications Unit's day-to-day activities – via an up and running municipal website. The unit has procured branding which is used on behalf of the institution at every available opportunity. Overall the Communications Unit has worked very hard to ensure the implementation of the Communication Strategy and continues to make great progress.

The Human Resources available to the Communications Unit are currently insufficient, with only 1 Communications Manager, 1 Communications Officer and 1 Admin Clerk attached to the unit. There is a need for more human resources in order for the unit to operate at optimum levels. However, infrastructural resources are a major challenge for the Communication Unit. The unit is without some vital equipment to carry out its day-to-day functions. By securing the necessary infrastructural resources the unit will be able to operate at maximum capacity.

The communications unit has also been able to draft a few communication policies, such as the Draft Strategic Issues Management Strategy, Draft Corporate Image Policy and others. The unit is also focusing its efforts on Corporate Communication – which will benefit the institution as whole. The most important of the policies which the unit hopes to have implemented is the Draft Internal and External Communications Policy. The unit has yet to present these policies to council and have them adopted. Having these policies adopted is imperative to the functioning of the unit – as they will give much needed guidance on day-to-day operations. Some of these policies are covered in the Communication Strategy as part of the strategy itself, this allows the unit to implement these policies though partially. It can be reported that much progress has been made on these fronts.

The unit is also taking on a new function – which is customer care. The Presidential Hotline and its operations via the municipality are handled in Communications Unit. There has been great progress and the unit is continuing to work hard to ensure that each and every complaint is dealt with and resolved. However, the prevalent challenge is that there is no permanent personnel assigned to the function.

## 5.7 Intergovernmental Relations

So far the municipality has drafted Terms of Reference for the IGR Framework, however the draft has yet to be presented to council for adoption. For the year under review, the municipality has had approximately 7 IGR meetings. However it must be stated that all these meetings are programme driven. This means that stakeholders do not regularly attend scheduled meetings, instead they only participate in meetings when there is a particular programme that requires their services and/or inputs. One of the main programmes that drives the IGR function is the Mbizana Integrated Service Delivery Initiative (MISDI) – through the IGR function the Communications Unit has been performing secretariat duties for the programme. Other initiatives that drive the IGR function are the Mayoral Imbizos as the municipality ropes in many different stakeholders (including government

departments) to participate in the IDP process.

Currently, there no Local Communicators Forum (LCF) and the only similar structure - "Uqilima" is now defunct. The Unit does participate in the District Communicators Forum (DCF) and sits regularly on quarterly meetings. For the year under review, the unit has not signed any MOU's or contracts related to the IGR function.

## 5.8 Legal matters

### 5.8.1 SETTING UP OF LEGAL UNITS

The legal unit was set up in 2004 with the employment of legal administrative officer.

List of service providers:  
Magigaba and Associates  
Jafter Incorporated  
L.W.Qina and Associates

### 5.8.2 MANAGEMENT OF LITIGATION

1. CASE LOAD MANAGEMENT WITH SPECIFIC REFERENCE TO:

A) Favourable cases

<i>Case name</i>	<i>Recovery (yes/No)</i>	<i>Reasons for non recovery</i>
GIFT Fynn vs MBIZANA MUNICIPALITY	If we win the case	If we lose the case
Thembalihle Communal property Association vs Christodoulou	Yes Prospects of winning the case high	If we lose the case

B) Unfavourable cases

<i>Case name</i>	<i>Compliance with judgement (yes/No)</i>	<i>Reasons for non compliance with judgement</i>
N/A	N/A	N/A

2. CASE AGE ANALYSIS

<i>Case name</i>	<i>Nature of the case</i>	<i>Date of commencement</i>	<i>Cases of 2 years or below</i>	<i>Cases beyond 2 years</i>	<i>Reasons for extensive duration</i>
Mthunzi Ngonyama	Claim for recovery of car allowance	2011	n/a	n/a	Court roll

3. DEFAULT JUDGEMENTS

<i>Case name</i>	<i>Reasons for default judgement</i>
N/A	N/A
N/A	N/A

4. PREVENTION MECHANISMS OF CURRENT LITIGATIONS

5. CRIMINAL MATTERS EMANATING FROM CORRUPTION AND FRAUD  
There are no case in court related to criminal matters.

### 5.8.3 MANAGEMENT OF LEGAL RISKS

There is no policy in managing legal risk. The municipality is currently developing the policy.



# Annual performance as per key performance indicators

## OFFICE OF THE MUNICIPAL MANAGER

<i>KPA</i>	<i>Objectives</i>	<i>Strategy</i>	<i>Baseline</i>	<i>Key pm indicator</i>
Integrated development planning	To produce a credible IDP review	By ensuring alignment of the IDP report to the credible assessment format	2010/11 adopted IDP	Council adopted participatory IDP process plan
			2009/10 SDBIP not aligned to PMS	Exco Approved SDBIP
Community based planning	To revive and implement community based planning	By establishing ward level planning	No ward Plans in place	Ward based plans incorporated to the IDP
Performance Management System	To promote culture of performance excellence	By facilitating effective management of performance and regular reporting	Adopted PMS policy and framework	Timeous submission of monthly and quarterly reports based on approved SDBIP
			No PM audit committee in place	Functional PM audit committee
Public participation	To promote a effective public participation	By strengthening the capacity of ward committees and incorporate CDWs	Ward committees inadequately capacitated	Functional ward committees and improved participation
			2009/10 agreements in place	Signed S57 contracts and PM score cards
Intergovernmental relations	To improve coordination of service delivery amongst spheres of government	By regularly engaging with all stakeholders in our development	Ad hoc IGR structure	Functional IGR structure
Communication	To improve municipal communications and public liaison	By reviewing and adopting communication strategy	No adopted communication strategy and temporal staff seconded to communications	Council adopted communication strategy and permanent staff employed
			No news letter publications done	Improved communication of municipal programmes
Council support	To provide adequate administrative support to council	By ensuring legislative compliance to legislative prescripts	Uncoordinated support to governance structures	Improved council performance and compliance
Legal Administration	To ensure proper management of municipal legal matters	By strengthening the capacity of the municipality to deal with legal matters	Centralised coordination of litigious matters	Number of cases handled

<i>Annual target</i>	<i>Actual performance</i>	<i>Reason for variance</i>	<i>Remedial action</i>
Adoption of Process plan and credible IDP adopted by May 2011	IDP & SDBIP ADOPTED	N/A	N/A
Align PMS framework, SDBIP and budget to IDP	PMS currently needs reviewal	N/A	N/A
Ward based adopted IDP	Ward plans completed pending incorporation of 6 wards and project identification	change in demarcation resulted in information change resulting non reality.	process to be reviewed in the next year
PM reviews and evaluations and report to EXCO and Council quarterly	Departments submit monthly reports Quarterly reports are submitted to Exco and council subsequently and further to the audit committee for performance review	N/A	N/A
Establish a functional Internal and external PM audit committees	Arrangement was made with audit committee to conduct reviews pending formation of external committee if council so requires	procastination delayed the processes of PM committee	committee to be established in the current year
Training of 250 Ward committees and 25 ward clerks. Submission of CDW reports to council	250 ward committees trained and 25 ward clerks trained	N/A	N/A
4 consultative meeting	Mayoral imbizos were held in all 25 wards as well as IDP and budget road shows.	budget allocations did not allow other visits hence only two were done	budget increase
S57 contracts signed and aligned to PMS	All contracts were reviewed signed by Mayor and MM respectively	N/A	N/A
Revival of IGR structures 4 IGR quarterly meetings	Structure was revived however no meeting has been held so far due to non cooperation of sector departments	Lack of cooperation by Government Departments	Engage Office of the Premier for support
Setting up the unit and adoption of communication strategy. Branding of municipality	Communication strategy was adopted, one communication officer employed.	N/A	N/A
	Branding was done which culminated in municipality having its own flag.		
4 quarterly news letter editions to be released	2 editions have been done in this financial year	There was a delay in procurement processes due to non responsiveness of service providers hence only two editions were done	Department to advertise early for this service
Coordinated council activities the adoption of council calendar.	Five year term resolutions book have been completed. Council calendar was adopted full support rendered to council and council committees	N/A	N/A
Constant support to s79 and 80 committees.			
Management of municipal litigations	Currently we have 4 cases in court roll which are Thembalihle communal (Ntshamate land claims)	Court roll delays which we do not have control over.	N/A
	Gift Fynn and Bizana Village		
	And Massey Ferguson case on eviction order. and the recent mass action case with 14 respondents		



<i><b>KPA</b></i>	<i><b>Objectives</b></i>	<i><b>Strategy</b></i>	<i><b>Baseline</b></i>	<i><b>Key pm indicator</b></i>
Legislation	To ensure proper municipal legislation and control within its area of jurisdiction	Attending to by-laws development	28 gazetted by-laws	Number of gazetted by laws
Internal Audit	To ensure compliance with laws and regulation applicable to municipality operations	By ensuring all department adhere to regulations and laws through adopted charters	Internal audit charter and audit charter in place	Functional audit committee
Poverty alleviation	Ensure integrated poverty eradication system	Facilitate the integration of all poverty related programmes	No plan in place	Council adopted poverty alleviation plan
Special Programmes	To promote and support mainstreaming of vulnerable groups in our society	By developing special groups policy	No policy in place	Mile stones towards achieving the stated municipal objective

<i>Annual target</i>	<i>Actual performance</i>	<i>Reason for variance</i>	<i>Remedial action</i>
Gazetting of 10 by-laws	Pending adoption and public hearings	Council delays in adoption since council was workshoped 2 years ago and needed to establish necessity of remaining by-laws thereof.	Workshop has been budget for in the new financial year
4 sittings of Audit committee	Audit committee has sat twice and since then chairperson has resigned and advert has been put up to fill that vacancy. Internal controls have set for supply chain and expenditure sections	Audit Committee did not sit for the 4 <sup>th</sup> meeting due to resignation of the Audit Committee chairperson.	The office of Municipal Manager has since advertised the for the vacancy
Introduction of internal controls & internal departmental audits			
Formulation of Integrated poverty alleviation Plan	Processes towards formulation of this plan are in progress but will be completed in the next financial year.	There was a delay in procurement processes due to non responsiveness of service providers	Plan will done in 2011/12 financial year
Mainstreaming of all programmes relating to women, youth, children and elderly and disabled	OVC assistance to sigidi SPS school.	No policy has been developed as there were minimal funds	Development of policy has been scheduled for 2011/12
	Mayoral achievement awards, mayor's cup in 25 wards, women's seminar, senior citizens parliament, marathon assistance to mzamba victim centre assistance to pre-schools that were constructed by municipality, domestic violence workshop in ward 9		







# APPENDIX

# Report of the Auditor-General to the Eastern Cape Provincial Legislature and the Council of Mbizana Local Municipality

## Report on the financial statements

### INTRODUCTION

1. I was engaged to audit the accompanying financial statements of the Mbizana Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to ....

### ACCOUNTING OFFICER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

2. The Accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), as well as for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR-GENERAL'S RESPONSIBILITY

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PA), my responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the International Standards on Auditing and General notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### BASIS FOR DISCLAIMER OF OPINION

#### PROPERTY, PLANT AND EQUIPMENT

4. I was unable to verify assets that were reflected on the asset register as Property, Plant and Equipment of the municipality. The value of these assets is R9, 6 million. I was unable to verify these assets via alternative procedures, and satisfy myself regarding the existence assertion. In addition, there were assets that were identified as Property, Plant and Equipment of the municipality, which I was unable to trace to the fixed asset register. The value of these assets is R1, 1 million, and I was unable to satisfy myself regarding the completeness assertion.

#### TRADE AND OTHER PAYABLES

5. The municipality could not provide sufficient appropriate audit evidence for the amount of R3, 4 million as disclosed as other payables, in note 11 to the financial statements. There were no satisfactory alternative audit procedures I could perform to obtain reasonable assurance on the balance.

6. In addition to the above, the municipality has failed to recognise accruals

at year end to the value of R1, 1 million in the annual financial statements. The municipality did not have adequate systems to maintain records of accounts payable for goods and services received but not yet paid.

7. Furthermore the municipality failed to account for, and disclose the accrual for Workman's compensation, resulting in an understatement of accruals in the Statement of Financial Position, and the corresponding understatement of workman's compensation expense, in the Statement of Financial Performance for the year ended 30 June 2011. The value of the omission is R1 million.

### OTHER RECEIVABLES FROM NON EXCHANGE TRANSACTIONS

8. The municipality did not submit sufficient, appropriate audit evidence to support the balance relating to other receivables from non - exchange transactions amounting to R3, 9 million. The balance relates to uncleared bank reconciling items from the previous financial year, which remains unsupported in the current financial year. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the aforementioned amount was properly recorded.

9. Consequently I was not able to satisfy myself on the existence, valuation, allocation and rights of the debtor amounting R3, 9 million presented as other receivables from non exchange transactions in the statement of financial position and disclosed in note 4 to the financial statements.

### CONSUMER DEBTORS

10. The municipality could not provide sufficient and appropriate audit evidence to support journal entry processed to consumer debtors amounting to R2, 8 million. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the journal entries were properly recorded. In addition to this, the municipality did not submit sufficient, appropriate audit evidence to support the material credit entry processed relating to trade debtors in the debtors control account, amounting to R4, 6 million. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the aforementioned amount was properly recorded.

### VALUE ADDED TAX RECEIVABLE

11. The municipality could not provide sufficient appropriate audit evidence to support the difference of R1, 4 million noted between the VAT returns completed and submitted for the year and the amount disclosed in the statement of financial position and note 7 to the financial statements of R4, 3 million.

### ACCUMULATED SURPLUS

12. The municipality could not provide sufficient appropriate audit evidence to support a journal entry processed to correct an error passed and disclosed against the opening balance of Accumulated Surplus to the extent of R4, 5 million. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the opening balance of accumulated surplus is properly disclosed. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself that the opening balance is properly recorded Irregular expenditure.

13. Section 62 of the Municipal Finance Management Act, (no. 56 of 2003) requires the municipality to implement and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective. Expenditure to the amount of R4, 6 million included in the statement of financial performance was incurred in the period as a result of the contravention of the SCM legislation. This amount was not included in irregular expenditure disclosed in note 39 the annual financial, resulting in Irregular expenditure being understated by R4,6 million.

## COMMITMENTS

14. Commitments of R30, 7 million (2010; Nil) (as disclosed in note 25 to the financial statements), do not agree to the balance of R27, 2 million (2010; Nil) per the accounting records. The municipality could not provide explanations or supporting documentation for the difference of R3, 5 million (2010; Nil). Consequently commitments are overstated by R 3,5 million (2010; Nil)

## ACCUMULATION OF IMMATERIAL UNCORRECTED MISSTATEMENTS

15. The financial statements as a whole are materially misstated by R3.6 million and R2, 6 million respectively due to due to the cumulative effect of various individually immaterial uncorrected misstatements making up the statement of financial position, and the statement of financial performance.

## CORRESPONDING FIGURES

16. The auditor's report for the year ended 30 June 2010 contained a disclaimer of opinion on the financial statements as a whole due to a limitation on the scope of the audit. The matters which gave rise to the limitation, as described below, remain unresolved in the current year.

17. The municipality could not provide sufficient appropriate audit evidence regarding;

- Trade and other payables of R4,6 million disclosed in note 11 to the financial statements;
- Other receivables from non-exchange transactions of R 1,2 million disclosed in note 4 to the financial statements;
- Accumulated surplus of R11 ,6 million disclosed in the financial statements;

18. I was unable to confirm or verify these amounts by alternative means and as a result, could not confirm the existence, valuation , completeness or rights and obligations of the abovementioned amounts included in the corresponding figures.

## DISCLAIMER OF OPINION

19. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

## EMPHASIS OF MATTER

I draw attention to the matters below. My opinion is not modified in respect of these matters:

## RESTATEMENT OF COMPARATIVE FIGURES

20. As disclosed in note 32 and 33 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of errors discovered during 2011 in the financial statements of the Mbizana Local Municipality at, and for the year ended, 30 June 2010.

## IRREGULAR EXPENDITURE

21. As disclosed in note 39 of the annual financial statements the municipality incurred irregular expenditure of R936 778 as the expenditure incurred was in contravention of supply chain management regulations.

## FRUITLESS AND WASTEFUL EXPENDITURE

In note 41 of the financial statements the municipality incurred fruitless and wasteful expenditure to the extent of R547 493 due to penalties arising from late payment of PAVE due to the South African Revenue Service.

## MATERIAL IMPAIRMENTS

22. As disclosed in note 3 of the annual financial statements the municipality has an impairment loss amounted to R 3 031 718 (2010: R 3 848 674). The impairment relates to consumer debtors which had been outstanding for more than 12 months and are considered to be doubtful.

## Report on other legal and regulatory requirements

23. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I include below my findings on the annual performance report as set out on pages xxx to xxx and material non-compliance with laws and regulations applicable to the municipality.

## PREDETERMINED OBJECTIVES

24. Material findings on the report on predetermined objectives, as set out on pages xxx to xxx, are reported below:

## USEFULNESS OF INFORMATION

25. The following criteria are relevant to the findings below:

- Consistency: Objectives, indicators and targets are consistent between planning and reporting documents
- Relevance: A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets

## AUDIT FINDING

Reported information not consistent with planned objectives, indicators and targets.

26. Mbizana Local Municipality did not report throughout the period ended 30 June 2011 on its performance against predetermined objectives, indicators and targets which are consistent with the approved integrated development plan. For the selected programmes, 24% of reported indicators were not consistent or not complete when compared with planned indicators.

27. For the Service Delivery programme, 50% of reported objectives were not consistent when compared with planned objectives, 59% of reported indicators were not consistent when compared with planned indicators and 37% of reported targets when targets were not consistent when compared with planned targets.

Reported information not relevant as no clear or logic link between the indicator and objective.

28. For the Service Delivery programme, 21 % of the development objectives have no clear link between the indicators and performance targets.

Reliability of information

29. The following criteria are relevant to the findings below:

- Validity: Actual reported performance has occurred and pertains to the entity.
- Accuracy: Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately.

## AUDIT FINDING

Corroborating evidence for reported measures taken to improve performance was not provided.

30. For the selected programmes, corroborating evidence for 100% of the instances identified where measures were taken to improve performance was not provided.

## COMPLIANCE WITH LAWS AND REGULATIONS

31. Included below are findings on material non-compliance with laws and regulations applicable to the municipality.



## STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT

32. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.

33. The accounting officer of the municipality did not submit the results of the assessment on the performance of the municipality during the first half of the financial year to the mayor of the municipality, the National Treasury, and the provincial treasury as required by section 72(1)(b) of the Municipal Finance Management Act.

## ANNUAL FINANCIAL STATEMENTS, PERFORMANCE AND ANNUAL REPORT

34. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of capital assets, current assets, liabilities, revenue, expenditure, disclosure items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a disclaimer audit opinion.

35. The accounting officer did not make the 2009/10 annual report public immediately after the annual report was tabled in the council as required by section 127(5) of the Municipal.

## FINANCE MANAGEMENT ACT

36. The accounting officer did not make public the council's oversight report on the 2009/10 annual report within seven days of its adoption, as required by section 129(3) of the Municipal Finance Management Act.

37. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan as required by section 46 of the Municipal Systems Act.

## AUDIT COMMITTEES

38. No audit committee was in place for the full year as required by section 166(1) of the Municipal Finance Management Act.

39. The audit committee did not function as required by section 166 of the Municipal Finance Management Act, in that:

- The audit committee did not advise the council the political office bearers the accounting officer and/or the management staff of the municipality on matters relating to internal financial control and internal audits risk management!accounting policies performance management effective governance compliance with applicable legislation and/or performance evaluation;
- The audit committee did not review the annual financial statements;
- The audit committee did not respond to the council on any issues raised by the Auditor-General in the audit report;
- The audit committee did not meet at least four times a year.

40. The audit committee did not advise the council of the municipality on the adequacy, reliability and accuracy of financial reporting and information as required by section 166(2)(a)(iv) of the Municipal Finance Management Act.

41. The audit committee did not advise the municipal council, the political office bearers, the accounting officer and the management staff of the municipality on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation as required by section 166(2)(a) of the Municipal Finance Management Act.

42. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance

audit committee as required by Municipal Planning and Performance Management Regulation 14.

43. The performance audit committee or another committee functioning as the performance audit committee did not perform the following as required by Municipal Planning and Performance Management Regulation 14:

- meet at least twice during the financial year;
- review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality;
- review the municipality's performance management system and make recommendations in this regard to the council of the municipality;
- submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

## INTERNAL AUDIT

44. The internal audit unit did not function as required by section 165(2) of the Municipal Finance Management Act, in that:

- Internal audit did not advise the accounting officer and/or report to the audit committee on matters relating to internal audit internal controls! accounting procedures and practices risk and risk management and/or loss control.

45. Internal audit did not report to the audit committee on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation as required by section 165(2)(b) of the Municipal Finance Management Act.

## PROCUREMENT AND CONTRACT MANAGEMENT

46. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).

47. Sufficient appropriate audit evidence could not be obtained that awards were to providers based on criteria that were similar to those stipulated in the original bid documents and/or were stipulated in the original bid documents as per the requirements of SCM regulation 21 (b) and/or 28(1).

48. Sufficient appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days as per the requirements of SCM regulation 22(1) & 22(2).

49. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as per the requirements of SCM regulation 28(2).

50. Sufficient appropriate audit evidence could not be obtained that final awards and/or recommendation of awards to the accounting officer were made by an adjudication committee constituted as per the requirements SCM regulation 29(2).

51. Awards were made to providers who are persons in service of state in contravention of the requirements of SCM regulations 44. Furthermore the provider failed to declare that they were in the service of the state as required by SCM regulation 13(c)

## HUMAN RESOURCE MANAGEMENT AND COMPENSATION

52. Senior managers directly accountable to the municipal manager did not sign annual performance agreements for the year under review. as required by sections 57(1)(b) and 57(2)(a) of the Municipal Systems Act.

53. The municipal manager did not sign an annual performance agreement for the year under review, as required by sections 57(1)(b) and 57(2)(a) of the Municipal Systems Act.

## EXPENDITURE MANAGEMENT

54. The accounting officer did not take reasonable steps to prevent irregular, fruitless and wasteful expenditure, as required by section 62(1)(d) of the Municipal Finance Management Act.

55. The municipality did not recover irregular, fruitless and wasteful expenditure from the liable person, as required by section 32(2) of the Municipal Finance Management Act.

## REVENUE MANAGEMENT

56. Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2)(h) of the Municipal Finance Management Act.

## INTERNAL CONTROL

In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

## LEADERSHIP

57. The accounting officer did not exercise the required oversight responsibilities to ensure compliance with laws and regulations and internal control. Furthermore the accounting officer did not properly review financial statements and predetermined objectives prior to submission for audit; this led to numerous control deficiencies, errors in the financial statements and the non-compliance findings detailed above. Policies and procedures to ensure that all transactions are accounted for in terms of GRAP requirements were not developed and communicated to staff members in the municipality's finance section.

58. The accounting officer did not exercise oversight over adherence to the supply chain management regulations. The non-adherence to supply chain management regulations resulted in irregular expenditure. Furthermore there are no documented policies and procedures in place to sufficiently communicate tasks for the adequate accounting and identification of expenditure that is irregular.

59. For predetermined objectives, the documented policy and procedure manuals were found not to have been implemented. As a result, significant deficiencies were identified in the performance report on predetermined objectives.

### *Financial and performance management*

60. Instances were identified where quality, reliable monthly financial statements and management information was not prepared by the municipality. Pertinent information is not identified and captured in a form and time frame to support financial and performance reporting. Numerous errors were noted on the annual financial statements submitted. Which is an indication that the financial statements were not adequately reviewed by management before submitting the final version for audit?

61. The municipality does not have proper record keeping and record management processes in place to ensure that the documentation supporting the amounts and disclosures in the financial statements are properly filed and easily retrievable. Information requested for audit purposes was not readily available and significant delays were experienced throughout the audit process. In some cases, the documentation was not received at all which resulted in a limitation of scope being placed on the audit.

62. The municipality has a financial management system in place. Despite this, numerous instances were identified where the municipality did not have manual or automated controls designed to ensure that the transactions had occurred, were authorised, and were processed completely and accurately.

## GOVERNANCE

63. Risk identification and management processes are not designed to identify changes in processes or risks and to verify that the design of underlying controls remain effective. The municipality has not selected and developed internal controls to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.

64. The municipality did not have an audit committee and an internal audit function that promoted accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations. These bodies did not carry out their responsibilities in a manner consistent with the requirements of the MFMA. In addition municipality did not have an audit committee throughout the year (as they resigned).

65. The internal audit unit did not assist management in maintaining effective and efficient controls over the information system environment, the reliability and integrity of financial and performance information, and compliance with laws and regulations.

East London

*Auditor-General*

East London

30 November 2011



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

# Audit Committee Report

## BACKGROUND

This is the report of the audit committee appointed in December 2011. During the year under review (ending 30 June 2011) the committee was non-existent and therefore could not discharge its duties. Therefore, for the purposes of this report the committee relies on:

- 1) The various interactions made since our appointment with the management;
- 2) The audit report of the Auditor General South Africa;
- 3) The financial statements of the municipality

Accordingly, the committee finds itself in an unusual position of having to write a report with the above disclaimer.

## GOVERNANCE

The committee acknowledges good governance as an important aspect of an effective control environment of any entity. Instability of governance structures inevitably leads to a poor control environment. The most important governance structures for financial management include the Accounting Officer, the Chief Financial Officer, Risk Management, Internal Audit and IT.

In terms of the Audit report the accounting officer did not exercise the required oversight to ensure compliance with laws and regulations. The committee has been made aware during the year under review the municipality functioned under an acting accounting officer. It is often difficult for an official in an acting position to exercise full authority from that position because of the inherent uncertainty of such a position. However, the committee welcomes the fact that the municipality has now appointed an accounting officer to bring stability.

In terms of section 166 of the municipal finance management act, a municipality must have an audit committee. As mentioned above, during the year under review, the audit function of the municipality was desolate without the audit committee. This then led the municipality to carry its activities without identifying and responding to any control weaknesses in the environment. While the audit committee has now been appointed, it has been noted that the internal audit unit lacked and still lacks capacity and this is a crucial concern that must be prioritised and addressed by the municipality without delay. The audit committee will not be effective without a properly capacitated internal audit function. The committee has, nevertheless, taken note of the undertakings made by the accounting officer to provide capacity for this function.

The municipality must similarly take the necessary steps to capacitate the risk management function which will also ensure that the work of internal audit is relevant and effective.

## EVALUATION OF THE FINANCIAL STATEMENTS

In terms of section 122 of the MFMA the municipality must prepare annual financial statements that fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year. However, The Auditor General has issued a disclaimer on the financial statements for the year under review, meaning that they could not find sufficient audit evidence to make a pronouncement on the financial position and performance of the municipality.

The Chief Financial Officer has acknowledged weaknesses in the keeping of financial records of the municipality. This is a serious indictment on the municipality to maintain regular financial reporting systems that will enable production of quality financial statements for the municipality. The municipality should consider effective systems of record management.

The AG also noted non-compliance with GRAP 17 pointing to some serious technical challenges in asset management which must also be dealt with in the turnaround strategy of the municipality.

## EVALUATION OF PERFORMANCE MANAGEMENT

In terms of section 46(2) of the Municipal Systems Act, the municipality must prepare for each financial year an annual performance report. Performance monitoring and reporting ought to be an integral part of the municipality's activities throughout the financial year.

The AG report lamented the lack of performance reporting systems within the municipality. However, the Accounting Officer has assured the committee that they are implementing a quarterly reporting system against the pre-determined objectives in the SDBIP. However, these reports must be evaluated by the internal audit system for assurance and relevant internal audit findings be presented to the audit committee.

## CONCLUSION

The municipality has taken a candid position to the serious challenges it is confronted with and this will lay a solid basis for turning around the current environment. The committee has noted the audit intervention plan presented by the municipality's management and this must be implemented by each manager in their respective areas of responsibilities. All leadership structures must monitor and support the implementation of the plan.

The committee must thank the Council, Hon. Mayor, Hon. Speaker, the Accounting Officer and the rest of the finance staff for bringing this committee on board to address the challenges confronting the municipality. The committee will continue to rely on the support of these structures for a successful tenure.

# Action plan

## 1.1 Emphasis of Matter

<i><b>Audit Finding</b></i>	<i><b>Proposed action plans to address the deviation</b></i>	<i><b>Responsible Persons</b></i>	<i><b>Target Date</b></i>
Emphasis of matter issues <ul style="list-style-type: none"> <li>- Restatement of comparative figures</li> <li>- Irregular, Fruitless and Wasteful expenditure</li> <li>- Material impairments</li> </ul>	Implement and document procedures to address the shortcomings pointed out by the AGSA.	AO	30/06/2012
Restatement of comparative figures <ul style="list-style-type: none"> <li>- Corresponding figures have been restated to account for the changes in accounting policies and prior year errors</li> </ul>	The AFS to be reviewed by management as well as the audit committee prior to submission	AO	30/06/2012
Irregular, Fruitless and Wasteful expenditure <ul style="list-style-type: none"> <li>- MLM incurred expenditure of R547,493 due to penalties of late payment of PAYE to SARS</li> </ul>	Refer to 6.1 'Expenditure management' below	AO	30/06/2012
Material impairments <ul style="list-style-type: none"> <li>- An impairment loss of R3,031,718 occurred during the financial year. This was for debtors considered to be doubtful.</li> </ul>	Attempts must first be made to recover doubtful debtors Present the list of receivables to be written off to council for approval	AO	30/06/2012

## 1.2 Legal and Regulatory Requirements

<i><b>Audit Finding</b></i>	<i><b>Proposed action plans to address the deviation</b></i>	<i><b>Responsible Persons</b></i>	<i><b>Target Date</b></i>
Reported objectives, indicators and targets not consistent and complete when compared to planned objectives, indicators and targets (consistency) <ul style="list-style-type: none"> <li>- MLM did not report throughout 2010/11 its performance against predetermined objectives, indicators and targets which are consistent with the approved IDP. 24% of the reported indicators were not consistent or not complete when compared with the planned indicators</li> <li>- 50% of the reported objectives were not consistent when compared to the planned objectives for the Service Delivery programme, 59% of indicators not consistent and 37% of targets not consistent</li> </ul>	Implement and document procedures to address the shortcomings pointed out by the AGSA.	Management	30/06/2012
Reported information not relevant as not clear or logic link between the indicator and the objective <ul style="list-style-type: none"> <li>- 21% of the development objectives have no clear link between the indicators and the performance targets for the Service Delivery programme</li> </ul>	Implement and document procedures to address the shortcomings pointed out by the AGSA.	Management	30/06/2012
Corroborating evidence for reported measures taken to improve performance was not provided <ul style="list-style-type: none"> <li>- For selected programmes, corroborating evidence for 100% for the instances identified where measures were taken to improve performance was not provided</li> </ul>	Implement and document procedures to address the shortcomings pointed out by the AGSA.	Management	30/06/2012

## 1.3 Compliance with Laws and Regulations

<i>Audit Finding</i>	<i>Proposed action plans to address the deviation</i>	<i>Responsible Persons</i>	<i>Target Date</i>
Strategic planning and performance management	<ul style="list-style-type: none"> <li>The Accounting Officer to report according to the requirements in sec 72(1)(a) and 72(1)(b) of the MFMA</li> </ul>	Management	25/01/2012
<ul style="list-style-type: none"> <li>The AO did not assess the performance of the municipality by 25 January for the first half of the financial year as required in sec 72(1)(a)(ii) of the MFMA</li> <li>The AO did not submit the results of the assessment of the performance to the mayor, National Treasury and Provincial treasury as required in sec 72(1)(b) of the MFMA</li> </ul>			
AFS, performance and annual report	<ul style="list-style-type: none"> <li>Annual Financial Statements to be reviewed by audit committee prior to submission.</li> </ul>	Management	31/07/2012
<ul style="list-style-type: none"> <li>AFS submitted for audit were not prepared in all material respects in accordance with sec 122 of the MFMA. Material misstatements were identified on capital assets, current assets, liabilities, revenue, expenditure and disclosure items. Uncorrected items resulted in a disclaimer of audit opinion.</li> <li>The AO did not make the 2009/10 annual report public immediately after the report was tabled in the council as required in sec 127(5) of the MFMA</li> <li>The AO did not make the 2009/10 annual report public within seven days after its adoption as required in sec 129(3) of the MFMA</li> <li>The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in the IDP as required in sec 46 of the MSA</li> </ul>	<ul style="list-style-type: none"> <li>Table the report in the council in terms of sec 127(2) of the MFMA</li> </ul>	Management	25/01/2012
Expenditure management	Expenditure Management		
<ul style="list-style-type: none"> <li>The AO did not take adequate steps to prevent fruitless, wasteful and irregular to occur as required by sec 62(1)(d) of the MFMA</li> <li>MLM did not recover fruitless, wasteful and irregular expenditure from the liable person as required by sec 32(2) of the MFMA</li> </ul>	<ul style="list-style-type: none"> <li>Implement and document procedures to ensure the timeous payment of goods/ service providers.</li> </ul>	Management	30/06/2012
		Management	30/06/2012
	<ul style="list-style-type: none"> <li>Implement and document procedures to address the shortcomings pointed out by the AGSA.</li> </ul>	Management	30/06/2012
	Fruitless, Wasteful Irregular expenditure		
	<ul style="list-style-type: none"> <li>Ensure that the municipality identify irregular expenditure according to the definitions given by the MFMA and report such expenditure according to stipulations in the MFMA.</li> <li>Irregular expenditure is recognised as expenditure in the statement of financial performance. If the expenditure is not condoned it is treated as an asset until it is recovered or written off as irrecoverable.</li> <li>Ensure that irregular expenditure is recovered, if not authorised according to MFMA 32(2).</li> <li>Ensure that the MFMA requirements are adhered to regarding disclosure of all irregular expenditure in the AFS.</li> </ul>	Management	30/06/2012

Revenue management				
-	Revenue received by MLM was not reconciled at least on a weekly basis as required by sec 64(2)(h) of the MFMA	<ul style="list-style-type: none"> <li>• Ensure the correct classification of revenue of the general ledger votes as these votes may be disclosed separately on the Statement of Financial Performance and/or on the notes to the financial statements.</li> <li>• Reconcile revenue on a weekly basis: documentation, GL and sub-ledger.</li> </ul>	Management	30/06/2012
Human resource management and compensation				
-	Senior managers accountable to the Municipal Manager did not sign performance agreements as required by sec 57(1)(b) and sec 57(2)(a) of the MSA	• Senior managers and the Municipal Manager to sign performance agreements	Management	30/06/2012
-	The Municipal Manager did not sign a performance agreement as required by sec 57(1)(b) and sec 57(2)(a) of the MSA	• Senior managers and the Municipal Manager to sign performance agreements	Management	30/06/2012
Procurement and contract management				
-	Sufficient, appropriate audit evidence could not be obtained that the goods and services of a transaction value above R200,000 were procured by means of inviting competitive bids as per requirement of SCM regulation 19(a) and 36(1)	• Implement and document procedures to address the shortcomings pointed out by the AGSA.	Management	30/06/2012
-	Sufficient, appropriate audit evidence could not be obtained that awards were to providers based on criteria that were similar to those stipulated in the original bid documents and/or were stipulated in the original bid documents as per SCM regulation 21(b) and/or 28(1)	• Implement and document procedures to address the shortcomings pointed out by the AGSA.	Management	30/06/2012
-	Sufficient, appropriate audit evidence could not be obtained that invitations for competitive bidding were advertised for a required minimum period of days as per the requirements of SCM regulation 22(1) and 22(2)	• Implement and document procedures to address the shortcomings pointed out by the AGSA.	Management	30/06/2012
-	Sufficient, appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of MLM SCM regulation 28(2)	• Implement and document procedures to address the shortcomings pointed out by the AGSA.	Management	30/06/2012
-	Sufficient, appropriate audit evidence could not be obtained that the final awards and/or recommendation of awards to the AO by the adjudication committee constituted as per the requirements SCM regulation 29(2)	• Implement and document procedures to address the shortcomings pointed out by the AGSA.	Management	30/06/2012
-	Awards made to persons who are persons in service of the state in contravention of SCM regulation 44, furthermore the provider failed to declare that they are in service of the state as per SCM regulation 13(c)	The SCM has to ensure that all the relevant and prescribed documentation is used at all times during the bid process	Management	30/06/2012



Audit committee  
No audit committee did not function as required in terms of sec 166 of the MFMA

Functional audit committee to be appointed

AO

30/06/2012

- Not review AFS;
- Not respond to council on issues raised by AGSA;
- Not meet at least 4 times a year;
- Did not advise AO, council, management and staff or political office bearers on matters relating to internal financial control, internal audits, risk management, accounting policies, performance management, effective governance, compliance with applicable legislation or performance evaluation
- The audit committee did not advise council on the accuracy, adequacy and reliability of financial reporting and information as required in sec 166(2)(a)(iv) of the MFMA
- The audit committee did not advise AO, council, management and staff or political office bearers on matters relating to compliance with MFMA, DoRA and other legislation as required in sec 166(2)(a) of the MFMA
- MLM did not budget and appoint a performance audit committee nor was another audit committee utilised as the performance audit committee as required by Municipal Planning and Performance Management Regulation 14
- The performance audit committee or another audit committee functioning as the performance audit committee did not perform the following as required by Municipal Planning and Performance Management Regulation 14
  - Meet 2 during the financial year;
  - Review quarterly reports of the internal auditors on their duties of the performance measures of MLM
  - Review MLM's performance management system and make recommendations in this regard to the council of the municipality
  - Submit the auditor's report to council regarding the performance management system at least twice during the financial year

Internal audit

- Internal audit did not function in terms of the requirements of sec 165(2) of the MFMA in that it did not advise the AO and/or report to the audit committee on matters relating to internal audit, internal control, accounting procedures, practices/risks, risk management and loss control
- Internal audit did not report to the audit committee on matters relating to MFMA, DoRA and other legislation in terms on sec 165(2)(b) of the MFMA

- The internal audit function to be outsourced if the municipality or municipal entity requires assistance to develop its internal capacity and

the council of the municipality or the board of directors of the entity has determined that this is feasible or cost-effective.

Management

30/06/2012

## 1.4 Internal Control

<i>Audit Finding</i>	<i>Proposed action plans to address the deviation</i>	<i>Responsible Persons</i>	<i>Target Date</i>
<b>Leadership</b>			
<ul style="list-style-type: none"> <li>- The AO did not adequately exercise oversight responsibility over reporting, compliance with laws and regulations, and internal control</li> <li>- The AO did not review the AFS and predetermined objectives prior to submission</li> <li>- Policies and Procedures were not developed and communicated to all staff to ensure that all transactions were accounted for in terms of GRAP</li> <li>- The AO did not exercise oversight of adherence to SCM regulations</li> <li>- Policies and Procedures were not developed and communicated to all staff to ensure proper accounting and identification of irregular expenditure</li> <li>- Documented policy and procedures were found not to have been implemented for predetermined objectives</li> </ul>	<ul style="list-style-type: none"> <li>• The AFS to be reviewed by the AO as well as the audit committee prior to submission to ensure compliance with the requirements of GRAP</li> <li>• Develop and communicate policies and procedures to ensure proper accounting and identification of irregular expenditure</li> <li>• Implement documented policy and procedures for predetermined objectives</li> </ul>	Management	30/06/2012
<b>Financial and Performance Management</b>			
<ul style="list-style-type: none"> <li>- Quality, reliable monthly financial statements and management information was not prepared by the municipality</li> <li>- Supporting information is not identified and captured to support financial and performance reporting</li> <li>- Numerous errors occurred on the AFS – indicative that the AFS was not properly reviewed before submission thereof</li> <li>- No proper record keeping and proper record management processes</li> <li>- Information requested during the audit was not readily available leading to delays during the audit process</li> <li>- In some cases documentation was not available leading to limitation of scope</li> <li>- MLM did not have manual or automated controls in place to ensure that the transaction occurred, was authorised, were processed and recorded properly</li> </ul>	<ul style="list-style-type: none"> <li>• The AFS to be reviewed by the AO as well as the audit committee prior to submission to ensure compliance with the requirements of GRAP</li> <li>• Supporting documentation, authorisation and journals to be kept for audit purposes.</li> </ul>	Management Management	Monthly 30/06/2012 30/06/2012
<b>Governance</b>			
<ul style="list-style-type: none"> <li>- The entity did not identify changes in processes or risks and to verify that underlying controls remain effective</li> <li>- MLM has not selected and developed internal control to detect, prevent and detect material misstatements in financial reporting and reporting on predetermined objectives</li> <li>- MLM did not have an audit committee throughout the year and internal audit function that promoted accountability and service delivery. Thus these bodies could not carry out its functions as set out in the MFMA</li> <li>- The internal audit did not maintain effective and efficient controls over IS, reliability and integrity of financial and performance information and compliance with laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Establish an internal audit unit as per s165 of the MFMA</li> <li>• Establish an audit committee as per s166 of the MFMA</li> </ul>	Management Management	30/06/2012 30/06/2012

## 2.1 Debtors and Provision for Bad Debts

<i>Deviation from FMBPR</i>	<i>Proposed action plans to address the deviation</i>	<i>Responsible Persons</i>	<i>Target Date</i>
AGSA reported on the following matters forming the basis for its Disclaimer of Opinion on the audit report for 30 June 2011:	<ul style="list-style-type: none"> <li>Reconcile the list to the general ledger on a monthly basis</li> </ul>	CFO	Monthly
Other receivables from non-exchange transactions	<ul style="list-style-type: none"> <li>The reconciliation must be reviewed by a delegated official on a monthly basis</li> </ul>		
<ul style="list-style-type: none"> <li>MLM could not provide sufficient, appropriate audit evidence for an amount of R3,9m. This relates to uncleared bank reconciling items from the previous financial year</li> </ul>	<ul style="list-style-type: none"> <li>Prepare a list of receivables to be written off.</li> <li>Present the list of receivables to be written off to council for approval</li> </ul>	CFO CFO	Monthly Monthly
Consumer debtors	<ul style="list-style-type: none"> <li>Ensure that the amount written off agrees to the 'Receivables written off' in the general ledger</li> </ul>	CFO	Monthly
<ul style="list-style-type: none"> <li>MLM could not provide sufficient, appropriate audit evidence for an journal entry amounting to R2.8m</li> </ul>	<ul style="list-style-type: none"> <li>Ensure that the receivables ledger is updated with the accounts written off</li> </ul>	CFO	Monthly

## 2.2 Bank Accounts and Cash

Audit Finding	Proposed action plans to address the deviation	Responsible Persons	Target Date
<p>AGSA reported on the following matters forming the basis for its disclaimer of opinion on the audit report for 30 June 2011:</p> <p>Other receivables from non exchange transactions</p> <p>The municipality could not provide sufficient and appropriate audit evidence to support other receivables from non exchange transactions amounting to R3.9 million. Management has indicated that these journal entries relate to clearing of reconciling items on the bank reconciliation that could not be traced to supporting document, due to bank reconciliation not prepared on a monthly basis. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the journal entries were properly recorded.</p> <p>Consequently I was unable to satisfy myself on existence, valuation and rights to the debtor of R3.9 million disclosed as other receivables from non exchange transactions in the statement of financial position.</p> <p>AGSA revealed the following general problems on bank account reconciliations:</p> <ul style="list-style-type: none"> <li>- The bank reconciliations were not prepared on a monthly basis for all bank accounts.</li> <li>- Bank reconciliations for all active bank accounts were not reviewed and approved by an independent senior official.</li> <li>- It was noted that the municipality does not maintain a register for returned and outstanding cheques.</li> </ul>	<ul style="list-style-type: none"> <li>• MLM must attend to the audit findings and make sure that the followings step are taken: <ul style="list-style-type: none"> <li>(a) Document the processes and procedures to be followed in Bank and Cash Administration.</li> <li>(b) Prepare and file working papers for Bank and Cash transactions.</li> <li>(c) Perform monthly reconciliations on Bank and Cash and file the working papers for audit purposes.</li> <li>(d) Long standing reconciling items must be cleared from Bank Reconciliations.</li> </ul> </li> <li>• Ensure the proper and correct disclosure of Bank, Cash and Cash Equivalents in the AFS.</li> <li>• Review the prior year matters that lead to a disclaimer of opinion, and restate comparatives with the correction of the error.</li> <li>• Perform a monthly reconciliation for each bank account between the following accounts: <ul style="list-style-type: none"> <li>- Bank Control - general ledger account; and</li> <li>- Bank Statement received from banking institution.</li> </ul> </li> <li>• Ensure that all differences and reconciling items are followed-up upon discovery thereof.</li> <li>• Authorisation of the Bank Reconciliation by the CFO or delegated official: <ol style="list-style-type: none"> <li>1) Ensure that the bank statement balance agree to the balance reflected on the bank statement at month end date.</li> <li>2) Ensure that the cash book balance agree to the general ledger.</li> <li>3) Test the mathematical accuracy of the bank reconciliation.</li> <li>4) Test the reconciling items on the bank reconciliation as follows: <ul style="list-style-type: none"> <li>- Trace outstanding cheques to subsequent bank statements;</li> <li>- Trace outstanding deposits to subsequent bank statements;</li> <li>- Ensure that other reconciling items agree to supporting documentation; and</li> <li>- Ensure that all stale outstanding cheques (older than 6 months) have been written back and re-issued as appropriate.</li> </ul> </li> </ol> </li> <li>• Inspect whether all bank accounts were accounted for by comparison with previous month's working papers and examining it for accounts omitted.</li> <li>• Inspect whether reconciling items are cleared on a timely basis.</li> <li>• Explain all reconciling items which have been outstanding for more than three months in a report to the council in terms of regulation 18435 (Government Gazette of 14 Nov 1997).</li> <li>• Investigate large or unusual items on the bank reconciliation.</li> <li>• Scrutinise the cash book for unusual transactions or entries and obtain explanations from officials.</li> <li>• In respect of a bank overdraft ensure that:- <ul style="list-style-type: none"> <li>- It is authorised by council resolution;</li> <li>- The credit limit is specified in the resolution of the council;</li> <li>- The terms of the agreement, including the credit limit, are only changed by a resolution of the council; and</li> <li>- Where the credit facility was approved by the council only for emergency use, the accounting officer notify the council in writing, as soon as is practicable, of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as the options available for repaying such debts. (Section 45 (3) of the MFMA.)</li> </ul> </li> <li>• Initial the bank reconciliation as evidence of review thereof by a senior official.</li> <li>• Ensure compliance with all MFMA sections related to bank accounts, i.e. sections 7-12, 70, 85, 86 and section 125, including during preparation of the AFS disclosure notes.</li> </ul>	CFO	30/06/2012

<i>Ref per AR</i>	<i>Key focus area</i>	<i>Description of findings as per AG report</i>
<b>Property Plant and Equipment</b>		
4.	Property Plant and Equipment	I was unable to verify assets reflected in the Assets register as property, plant and equipment of the Municipality. The value of these assets is R9,6 million. I was unable to verify these assets by means of alternative procedures to satisfy myself regarding the existence assertion. In addition, there were assets that were identified as property, plant and equipment of the Municipality, which I was unable to trace to the fixed asset register. The value of these assets is R1,1 million. I was unable to satisfy myself regarding the completeness assertion.
<b>Trade and other Payables</b>		
5.	Trade and other payables	The Municipality could not provide sufficient appropriate audit evidence for the amount of R3,4 million disclosed as other payables in note 11 to the financial statements. There were no satisfactory alternative audit procedures I could perform to obtain reasonable assurance on the balance.
6.		In addition, the Municipality has failed to recognise accruals at year-end to the value of 1,1million in the annual financial. The Municipality did not have adequate systems to maintain records of accounts payable for goods and services received but not yet paid.
7.		Furthermore, the municipality has failed to account for and disclose the accrual for workman's compensation, resulting in an understatement of accruals in the statement of financial position, and the corresponding understatement of the workman's compensation expense in the statement of financial performance for the year ended 30 June 2011. The extent of the omission amounts to R1million.
<b>Other Receivables from non-exchange transactions</b>		
8.	Other Receivables from non-exchange transactions	The municipality did not submit sufficient appropriate audit evidence to support the balance relating to other receivables from non-exchange transactions amounting to R3, 9million. The composition of the balance relates to un-cleared bank reconciling items from the previous financial year, which remains unsupported in the current financial year. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the aforementioned amount was properly recorded.
9.		Consequently, I was not unable to satisfy myself to the existence, valuation, Allocation and rights of the debtor amounting R3,9 million presented as other receivables from non-exchange transactions in the statement of financial position and disclosed in note 4 to the financial statements.
<b>Consumer Debtors</b>		
10.	Consumer debtors	The municipality could not provide sufficient and appropriate audit evidence to support journal entries processed to consumer debtors amounting to R2, 8million. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the journal entries were properly recorded. In addition, the municipality did not submit sufficient, appropriate audit evidence to support the material credit entry relating to trade debtors in the debtors control account, amounting to R4, 6million. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the aforementioned amount was properly recorded.
<b>Value added tax receivable</b>		
11.	Value added tax	The Municipality could not provide sufficient appropriate audit evidence to support the difference of R1, 4 million noted between the VAT returns completed and submitted for the year and the amount disclosed in the statement of financial position and note 7 to the financial statements of R4,3 million.
<b>Accumulated Surplus</b>		
12.	Accumulated Surplus	The municipality could not provide sufficient appropriate audit evidence to support the correction of an error passed and disclosed against the opening balance of accumulated surplus to the amount of R4,5 million. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that the opening balance of accumulated surplus is properly disclosed. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself that the opening balance is properly recorded.

<i>Responsible official</i>	<i>Proposed Action (Corrective measure)</i>	<i>Target date</i>	<i>Proposed Action (Preventive measure)</i>
CFO	Internal audit to assist in verification of assets	28 February 2012	The asset register to be updated monthly for additions, disposals, transfers, etc. Senior officials to review the asset register on a monthly basis Perform a physical verification of Assets.
CFO	Council to condone the amount	31 March 2012	Complete bank reconciliations on a monthly basis; ensure that each months' reconciliation is signed off.
CFO	<ul style="list-style-type: none"> <li>Correct accruals understated at financial year end</li> <li>Preparation correction of error note for 2011/12 AFS</li> </ul>	28 February 2012	AFS to be reviewed by management as well as the audit committee prior to submission
CFO	<ul style="list-style-type: none"> <li>Correct accruals understated at financial year end</li> <li>Preparation correction of error note for 2011/12 AFS</li> </ul>	31 March 2012	The AFS to be reviewed by management as well as the audit committee prior to submission
CFO	Council to condone the amount	31 March 2012	Complete bank reconciliations on a monthly basis; ensure that each months' reconciliation is signed off.
CFO	Will be addressed when the above query has been addresses	31 March 2012	
CFO	Council to condone the R2,8 million Internal audit to assist in the R4.6 million as the said amount had all supporting documentation	31 March 2012	Complete bank reconciliations on a monthly basis; ensure that each month's reconciliation is signed off.
CFO			Complete VAT reconciliations on a monthly basis; ensure that each month's reconciliation is signed off.
CFO	Reconcile movement on the Accumulated Surplus for the 2009/10, 2010/11 and 2011/12 financial years.  Restate the 2011/12 comparative figures, where applicable where errors were found and ensure that it complies with the requirements of GRAP 3.	31 March 2012	Transactions and journals to be supported by supporting documentation, reviewed and authorised. All relevant documentation must be retained for audit purposes and safeguarded as part of key internal control procedures



Ref per AR	Key focus area	Description of findings as per AG report
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### **Irregular Expenditure**

13.	Irregular expenditure	Section 62 of the MFMA requires the municipality to implement and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective. An amount of R4,6 million included in the statement of financial performance was incurred in the period as a result of the contravention of SCM legislation. This amount was not included in irregular expenditure disclosed in note 39 to the annual financial statements, resulting in irregular expenditure being understated by R4, 6 million.
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### **Commitments**

14.	Commitments	Commitments of R30,7 million(2010:Nil),as disclosed in 25 to the financial statements, do not agree to the balance of R27,2million(2010:Nil)per the underlining accounting records. The Municipality could not provide explanations or supporting documentation for the difference of 3,5 million(2010:Nil) between the financial statements and the underlining accounting records. Consequently, the commitments are overstated by R3,million(2010:Nil)
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### **Accumulation of material uncorrected misstatements**

15.	Accumulated of material	The financial statements as a whole are materially misstated by R3,6million and R2,6million respectively, due to the cumulative effect of various individually immaterial uncorrected misstatements making up the statements of financial position and the statement of financial performance.
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### **Corresponding Figures**

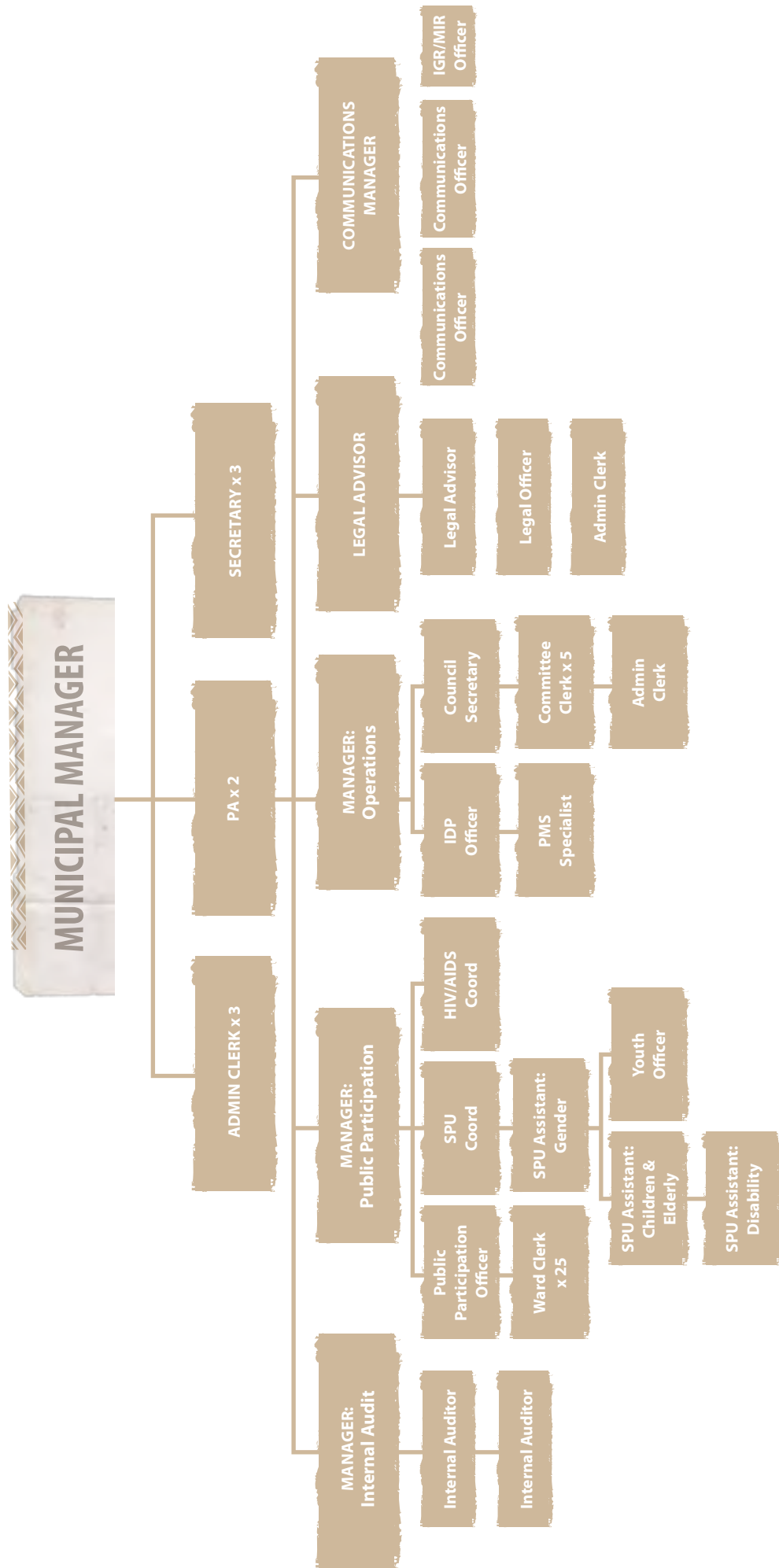
16.	Corresponding figures	The auditor's report for the year ended June 2010 contained a disclaimer of opinion on the financial statements as a whole due to the limitation on the scope of the audit. The matters which gave rise to the limitation, as described below, remain unresolved in the current year.
17.		<p>The Municipality could not provide sufficient appropriate audit evidence regarding:</p> <ul style="list-style-type: none"> <li>• Trade and other payables of R4,6 million disclosed in note 11 to the financial statements.</li> <li>• Receivables from non-exchange transactions of R1,2million disclosed in note 4 to the financial statements; and</li> <li>• Accumulated surplus of R11million disclosed in the financial statements.</li> </ul>
18.		I was unable to confirm or verify these amounts by alternative means and, as a result, could not confirm the existence, valuation and completeness of or the rights and obligations pertaining to the above-mentioned amounts included in the corresponding figures.

<i>Responsible official</i>	<i>Proposed Action (Corrective measure)</i>	<i>Target date</i>	<i>Proposed Action (Preventive measure)</i>
Management		31 January 2012	Stricter controls on SCM policy implementation
CFO	Internal audit to assist in verification and advise thereof.	31 January 2012	The AFS to be reviewed by management as well as the audit committee prior to submission
CFO	Corrections to be made during the 2011/12 year and a correction of error note to be included in the AFS as per the requirements of GRAP 3	31 March 2012	The AFS to be reviewed by management as well as the audit committee prior to submission
CFO	Council to condone	31 March 2012	Complete reconciliations on a monthly basis; ensure that each month's reconciliation is signed off.
CFO	Will be addressed when the above has been addressed		Complete reconciliations on a monthly basis; ensure that each month's reconciliation is signed off.
CFO		21 March 2012	Complete reconciliations on a monthly basis; ensure that each month's reconciliation is signed off.

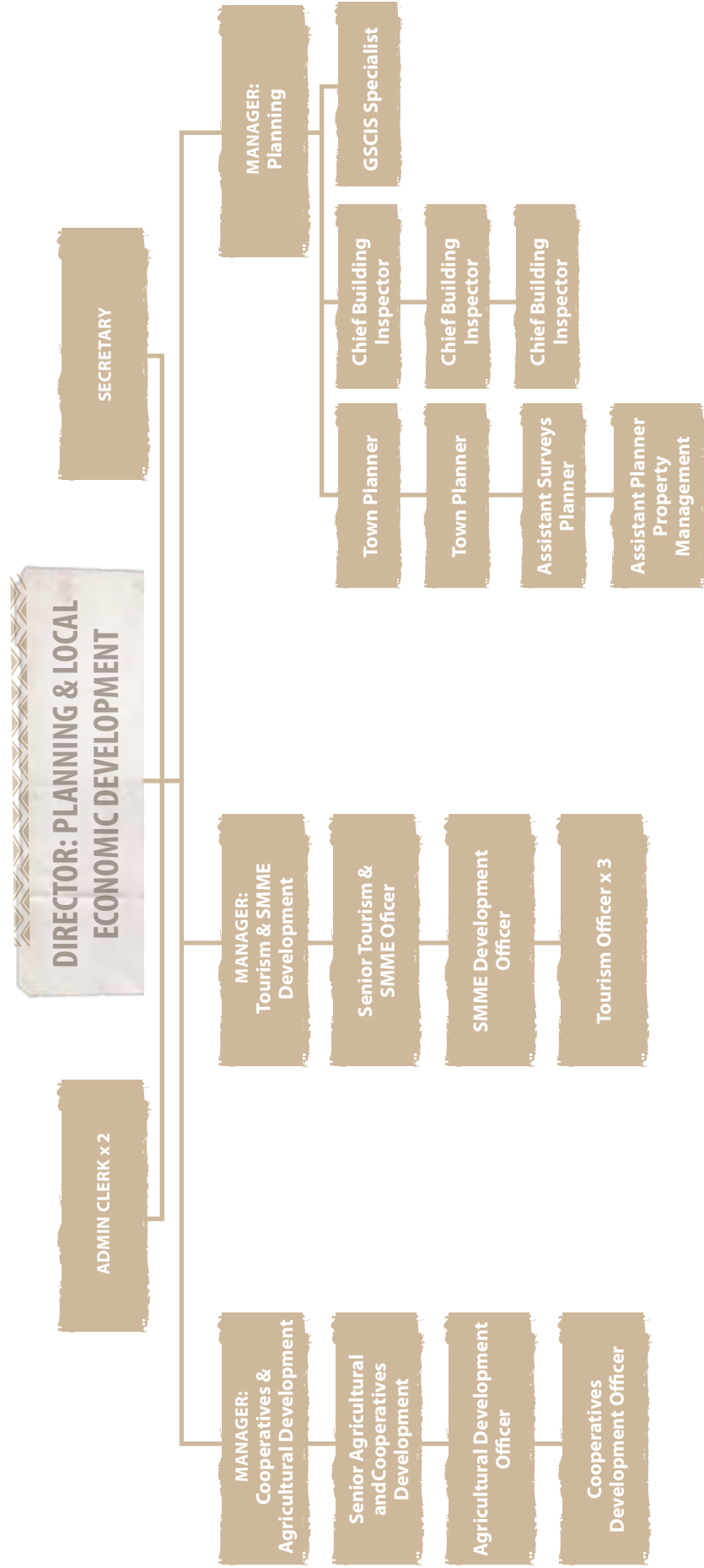
# Municipal Structure



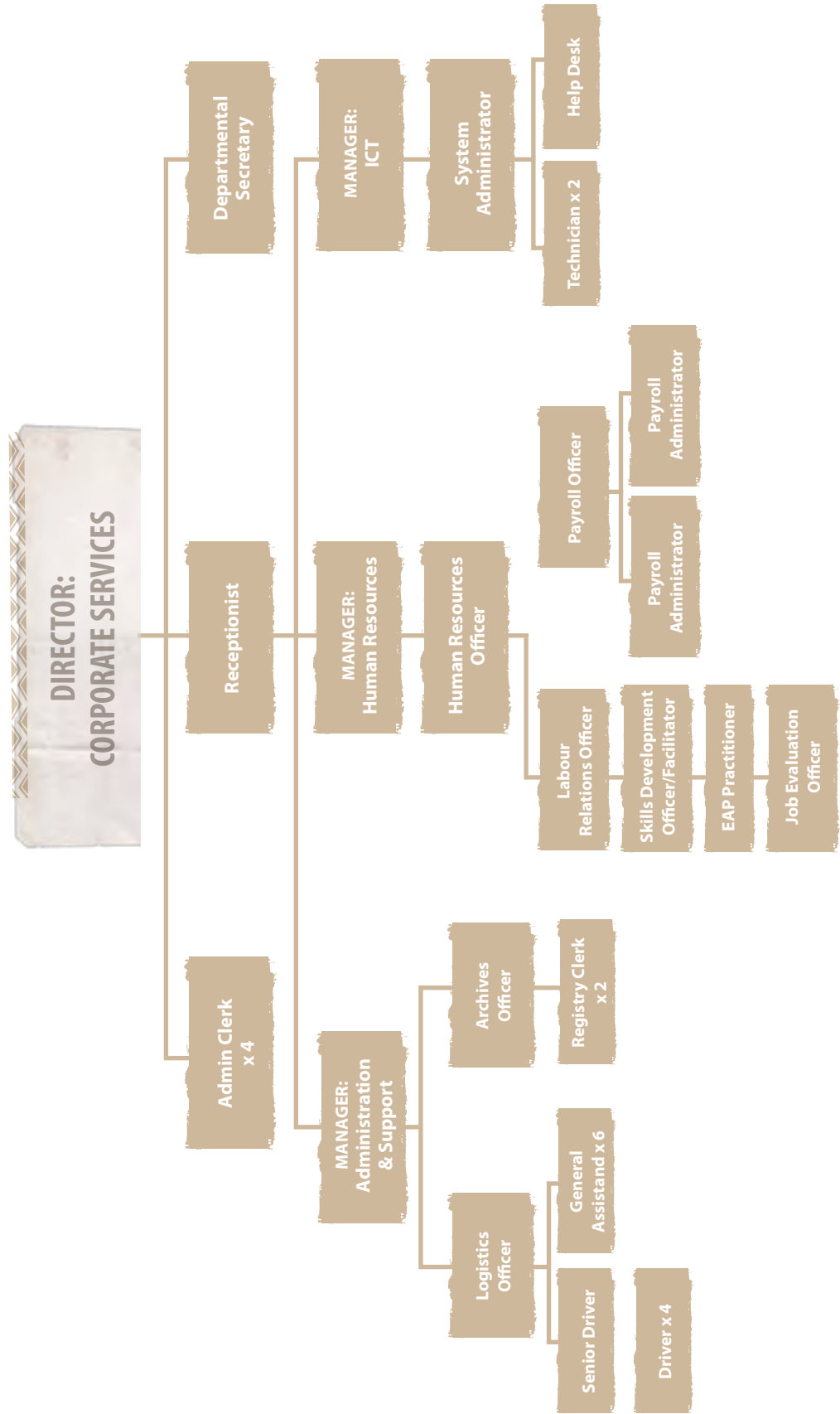
# Office of the Municipal Manager



# Planning and Development Department

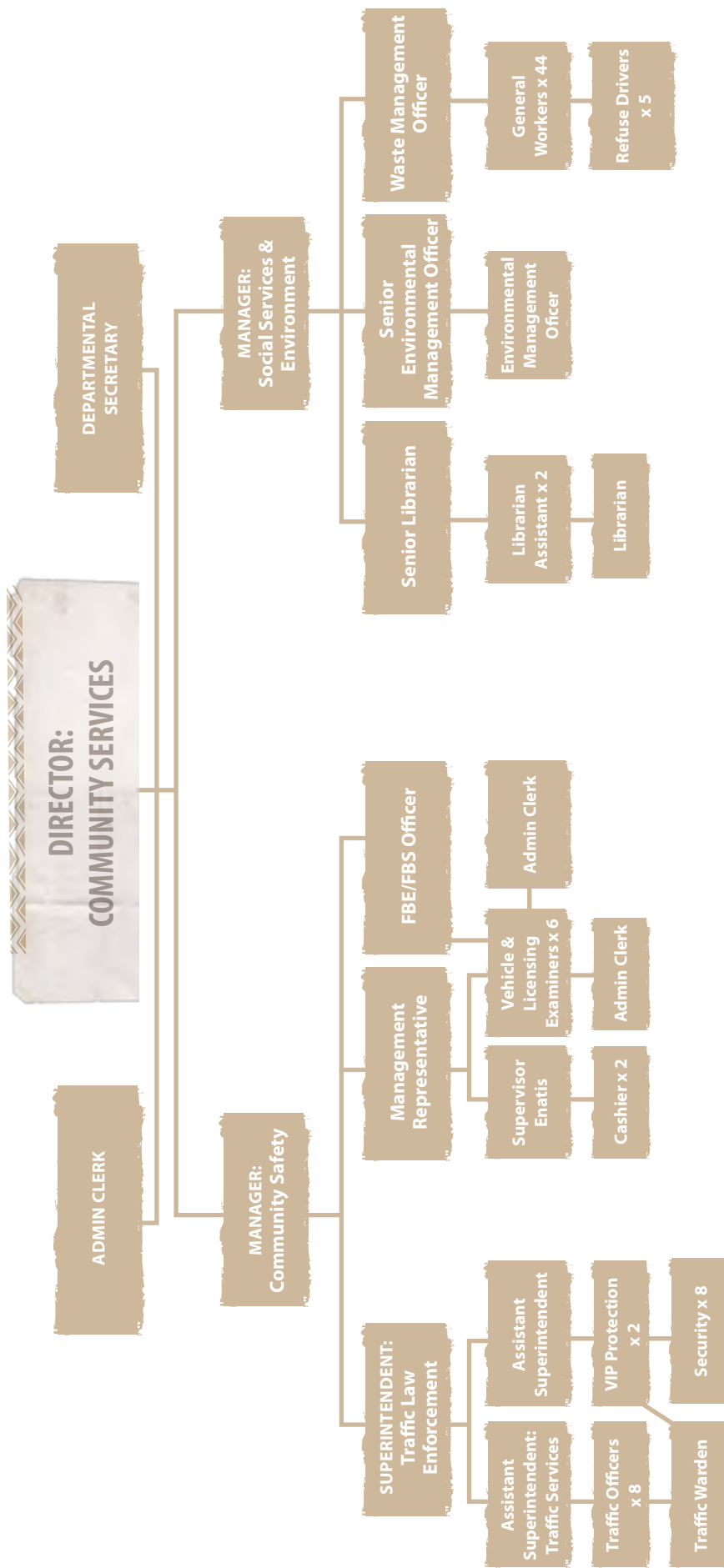


# Corporate Services Department

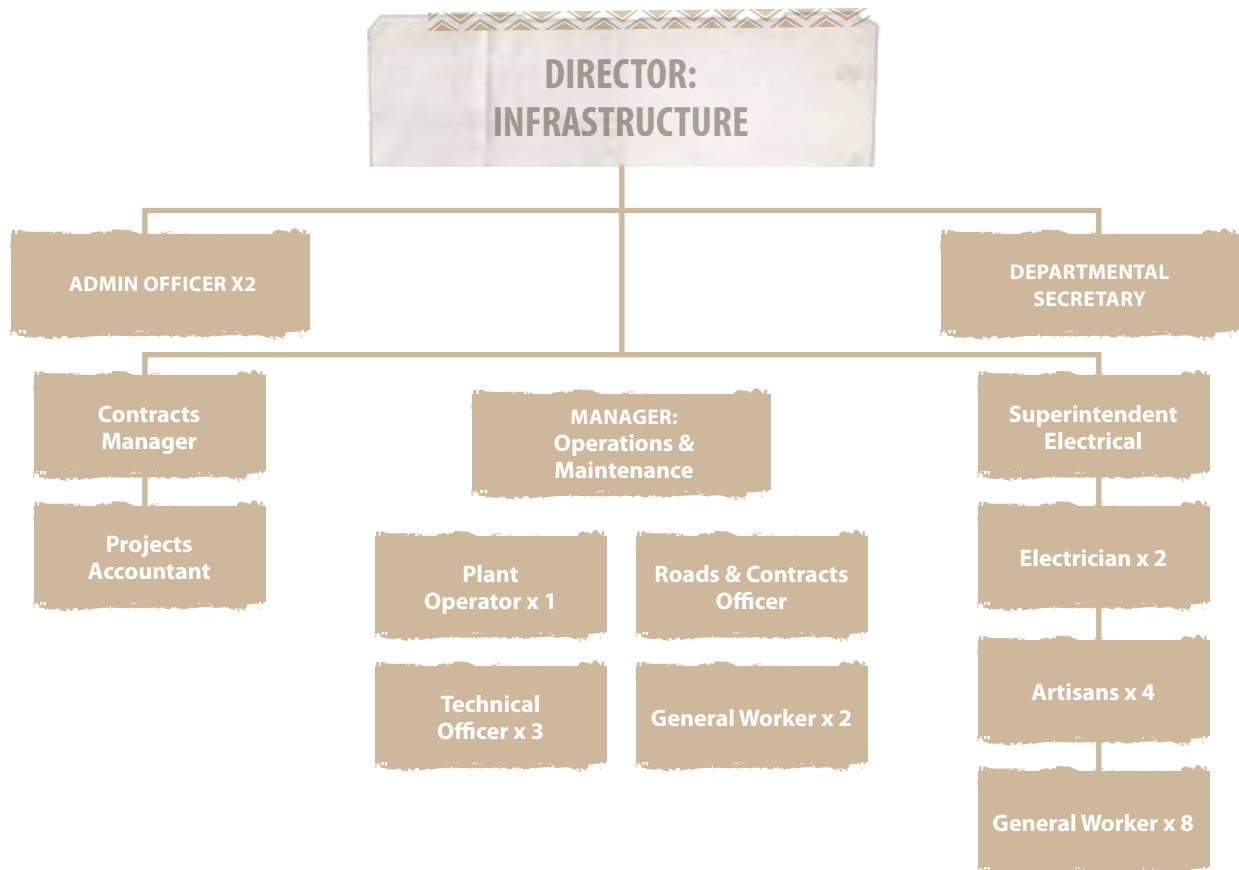




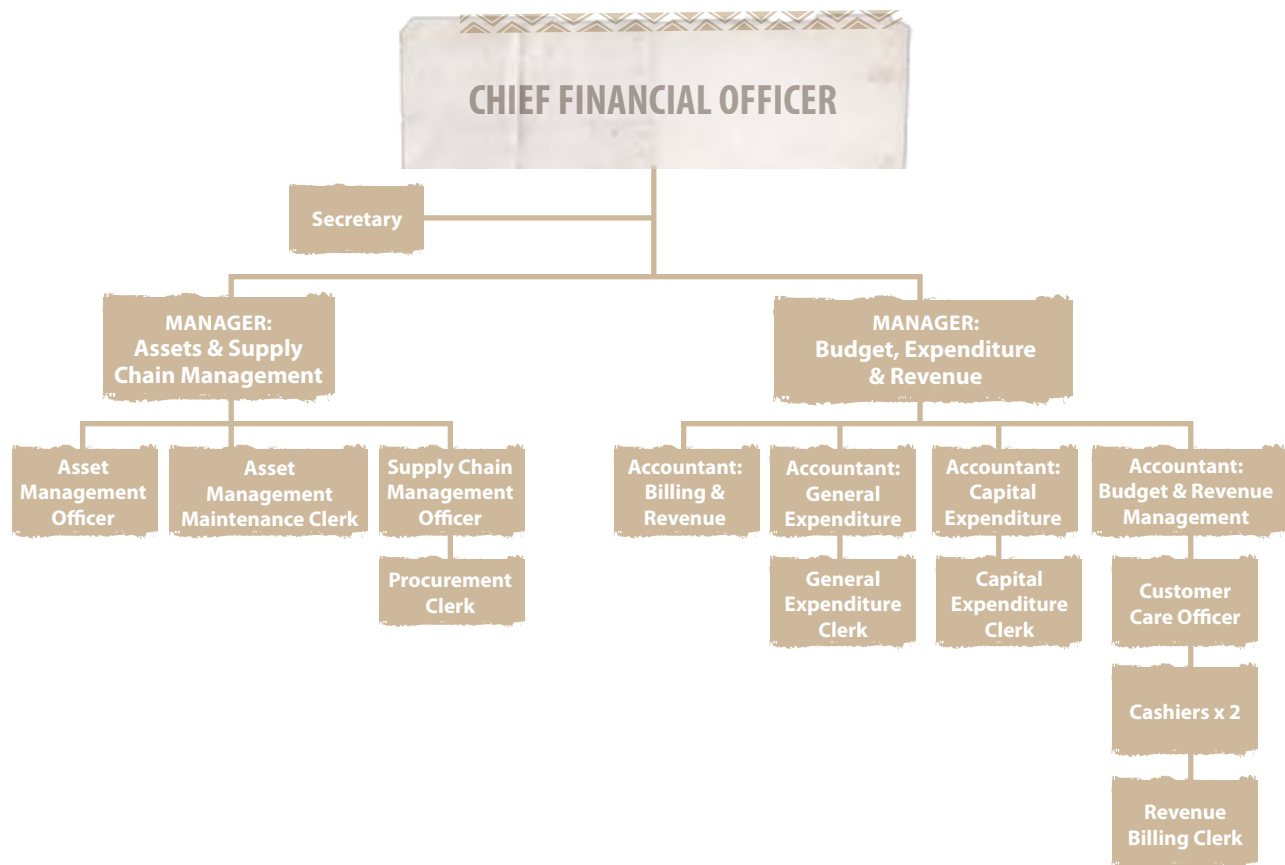
# Community Development Department



# Infrastructure Department



# Budget and Treasury Department







**Mbizana**  
MUNICIPALITY

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